UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED

E/ECA/LDCs.3/2
21 March 1983

Original: ENGLISH/FRENCH

ECONOMIC COMMISSION FOR AFRICA

Second meeting of the Intergovernmental Committee of Experts of African Least Developed Countries

Addis Ababa, 11-13 April 1983

ECONOMIC COMMISSION FOR AFRICA

Third meeting of the Conference of Ministers of African Least Developed Countries

Addis Ababa, 25 and 26 April 1983

LC/NAIROBI

REVIEW OF SOCIO-ECONOMIC CONDITIONS, MAJOR PROBLEMS AND POLICIES IN AFRICAN LEAST DEVELOPED COUNTRIES

CONTENTS

		Page
	INTRODUCTION	
	A. Review of major issues raised in chapter one of the Substantial New Programme of Action.....	1
	B. Purposes of the study.....	1
I.	GENERAL TRENDS	
	A. Major macro-economic aggregates and socio-economic indicators.....	2
	B. Budgetary developments.....	4
	C. Trade with the outside world.....	5
	D. Social sector and socio-economic infrastructure	6
II.	ECONOMIC AND SOCIAL POLICIES PURSUED BY AFRICAN LEAST DEVELOPED COUNTRIES	
	A. Reconstruction policies.....	6
	B. Investment policies, 1981-1982.....	7
	C. Export promotion policies.....	9
	D. Price policies.....	11
	E. Monetary policies, 1981-1982.....	12
	F. Exchange rate policies, 1981-1982.....	13
	G. Budgetary policies, 1981-1982.....	15
III.	COUNTRY ECONOMIC STUDIES	
	BENIN.....	18
	BOTSWANA.....	22
	BURUNDI.....	26

CONTENTS (CONT'D)

	Page
CAPE VERDE	30
THE CENTRAL AFRICAN REPUBLIC	33
CHAD	37
THE COMOROS	40
ETHIOPIA	44
THE GAMBIA	48
GUINEA	54
GUINEA-BISSAU	57
LESOTHO	60
MALAWI	66
MALI	71
THE NIGER	75
RWANDA	78
SOMALIA	82
THE SUDAN	86
UGANDA	92
THE UNITED REPUBLIC OF TANZANIA	97
THE UPPER VOLTA	101

REVIEW OF SOCIO-ECONOMIC CONDITIONS IN AFRICAN LEAST DEVELOPED COUNTRIES

INTRODUCTION

A. Review of major issues raised in chapter one of the Substantial New Programme of Action

1. It is over one year now since the Substantial New Programme of Action was adopted by the United Nations Conference on Least Developed Countries. The programme was subsequently endorsed by the General Assembly in resolution 36/194 of 19 December 1981. The Substnatial New Programme of Action listed, in chapter 1, a number of measures that the least developed countries would have to take at the national level in order to implement their development programmes. Those measures focus essentially on agricultural policy (especially the adoption of a food strategy), the development of the manufacturing sector, economic and institutional infrastructure and the development of human and natural resources.

2. To complement these measures the Substantial New Programme of Action appealed to the international community to assist the least developed countries particularly through an increase in the percentage of the gross national product that industrialized countries allocated to Official Development Assistance. In that regard, several donor countries made the commitment either to increase their assistance to least developed countries to 0.15 per cent of their gross domestic product or to double such assistance by 1985. The Substantial New Programme of Action also recommended that donor countries and agencies should ease the terms of assistance in particular, the conditions, criteria and forms of such assistance in order to make it more effective. Finally the Substantial New Programme of Action laid down the modalities for its implementation, in particular the preparation, by the least developed countries, of programmes and projects to be proposed to funding agencies in the course of "round tables" or "consultation groups" which would be held by 1983 at the latest.

B. Purposes of the study

3. Since the adoption of the Substantial New Programme of Action, African least developed countries have been involved in preparing their national programmes with the assistance of bilateral and multilateral financial and technical assistance institutions, in particular, the United Nations Development Programme, the World Bank and other agencies of the United Nations, including ECA. In spite of the adverse international economic situation characterized by stagflation in industrialized countries, the diminishing volume of international trade, the deterioration in the terms of trade and the resultant worsening situation in African least developed countries, most African LDCs have undertaken bold reforms with a view to reviving their economies, providing conditions for greater effectiveness

in international assistance and laying the foundations for long-term development.

4. The purpose of this study is to review economic and social development in 1981-1982 in African least developed countries by highlighting the major macro-economic trends and in particular gross domestic product and its components as well as external trade. In part two of the study, the major economic policies pursued by the least developed countries are analysed with particular regard to the results achieved and problems encountered in their implementation. Part three comprises a brief review of the economic situation in each of the African least developed countries, with the exception of Djibouti, Equatorial Guinea, Sao Tome and Principe, Sierra Leone and Togo which have only just been classified as least developed countries by the General Assembly at its thirty-seventh session.

PART ONE: GENERAL TRENDS

A. Major macro-economic aggregates and socio-economic indicators

5. The overall structure of GDP in African least developed countries remained the same in 1981 as it had been in 1980. On the supply side, agriculture, animal husbandry and fishing constituted the predominant sector with 44 per cent of the value added (or $5.8 billion) engaging over 78 per cent of the active population. The production growth rate in the sector remained largely the same in 1981 as in 1980 (2.3 per cent as against 1.3 per cent and 1.8 per cent in 1970-1975, and 1975-1980 respectively). The slight upward trend reflects a food production growth rate in the order of 2 per cent as compared to a population growth rate of approximately 2.8 per cent. It however conceals disparities in individual situations which, combined with the lack of redistribution of possible production surpluses, leaves the food situation of African least developed countries as precarious as in previous years. Indeed, while countries such as Botswana (on account of the near-total reconstitution of its livestock), the Gambia, Lesotho and Malawi (on account of good harvests of industrial crops) recorded production growth rates of 27.2, 25.3, 11.2, 12.4 and 10.3 per cent respectively, other countries fluctuated between 1.6 per cent and 8.9 per cent. One other factor which seems not to have improved the food situation of African LDCs is the composition of production at times dominated by animal husbandry with a low consumption rate and at other times dominated by industrial crops. The wide gaps in growth between countries can also be explained by such factors as climate and soil type as well as by differences in rural support measures and agricultural promotion strategies, the level of gross agricultural capital formation and access to credit etc.

6. Since the number of countries with substantial known mineral resources 1/ is limited, the percentage GDP of the mining sector remained at the 1.3 per

---

1/ Botswana, Guinea, Lesotho, the Niger, the Central African Republic and the United Republic of Tanzania.

cent level of 1980 despite an increase of 4 per cent in the value added in 1981. This was mostly due to the fall in demand or world prices for major commodities such as bauxite, copper, uranium and diamonds. The sector seems to exercise a great multiplier effect on the rest of the economy because of the required auxilary infrastructure such as roads, bridges and railway lines. This explains the high growth rates projected by such countries as Guinea, the Upper Volta and the Niger once their major mining projects got underway.

7. The manufacturing sector is essentially based on agro-industries, the processing of livestock products, the processing of minerals into metal and the supply of such inputs as fertilizers, construction materials and the like to other sectors. The modest performance of the rural sector (despite a slight upswing) and the mining sector thus resulted in a 5 per cent increase in the productivity of manufacturing industries in 1981 of $1.2 billion as compared to 2.8 per cent per year from 1970-1980 which reflected an actual per capita income decline of 0.6 per cent in the manufacturing sector. Most countries also suffered from the cost of maintaining existing units and the lack of technical and qualified management personnel who could hardly resist the lure of such powerful neighbours as Nigeria and the Ivory Coast for Benin, Mali and the Niger for example, and South Africa for Botswana, Lesotho, Malawi, etc.

8. Building and public works. Owing to production costs and difficulties in obtaining supplies of construction materials which held up the launching of most infrastructural work this sector still contributed 4.2 per cent to GDP as in 1975 despite an annual growth rate of 3.6 per cent.

9. Trade and transport development are closely linked. Such development was hindered by:

(a) Internal factors arising from the fact that 11 of the countries are completely land-locked, two are insular and eight have an outlet to the sea, transport and communications networks are obsolete and expensive to rehabilitate not to mention the imperfections of domestic markets;

(b) External factors such as the protectionism practised by certain neighbours because of difficulties they themselves are experiencing.

10. This is how each of the two sectors suffered from the downswing that began in 1970. The 7.8 per cent annual growth rates of 1970-1975 fell to 6.4 per cent in 1975-1980 and then to 3.1 per cent in 1981 for transport and from 4.9 per cent to 4.2 per cent then to 1.8 per cent for trade. Such countries as Benin mainly benefited from their role as transit countries. African LDCs are still largely dependent on energy imports which account for 14 per cent of their total imports. Development in services denoted the will of the various countries to limit administrative costs.

11. On the demand side, a slight decrease could be noted in private consumption from 73 per cent of GDP in 1970-1980 to 64 per cent in 1981 and a stabilisation in public consumption around 14 per cent of GDP since 1970. The average investment rate for 1981 was 15.7 per cent of GDP as compared to an annual mean of 13.4 per cent from 1970 to 1980 while gross domestic savings amounted to 9.1 per cent of GDP as against 9 per cent over the same period. This gave

an increase in the savings deficit in order of 28.2 per cent between 1980 and 1981 ($1 billion as compared to $0.8 billion), reflecting increasing recourse to external sources of financing the investment programme (85.6 per cent in Mali, 66 per cent in Rwanda, 25 per cent in Malawi and 60 per cent in the Sudan). Thus the problem of defining an adequate domestic savings generation and mobilization policy still remains to be solved. It should be noted that a general trend is emerging to distribute investments in favour of agriculture and socio-economic infrastructure (26 per cent for each branch).

12. For all sectors of the economy of African least developed countries, the initial estimates indicate a slow-down of the GDP growth rate in real terms (at 1970 price factor costs). From 3.6 per cent per annum in 1975-1980 the rate reportedly fell to 3.3 per cent in 1981 as compared to 2.8 per cent per annum in 1970-1975. This corresponds to an increase in real terms of only 0.9 per cent in per capita GDP ($103 in 1981 as compared to $102 in 1980). The recession, as analysed further on, arises from the difficulties experienced in major sectors of the economy.

B. Budgetary developments

13. Apart from a few countries that had been experiencing chronic deficits since 1975, the regular State budget trends of African least developed countries in 1981 were satisfactory despite a decline, in some cases, in the volume of excise duty (major source of earnings), particularly import-export taxes, and stagnation in the motor productive sectors of bauxite in Guinea and uranium in the Niger. This development was due largely to economic and financial recovery programmes initiated in most of the countries. The main source of deficit seemed to be capital budgets.

14. The trend has been to seek ways of establishing and mobilizing public savings. The methods used, often complemented by IMF financial stabilization programmes, have been of two types:

(a) Rebalancing, or failing that, containing regular budget deficits by:

(i) freezing wages and controlling recruitment in the public service;

(ii) improving tax collection systems;

(iii) reorganizing the State sector and improving its profit-making capacity in order to increase its transfers to the central government;

(iv) stabilizing public consumption,

(b) Control of capital budgets which are the major source of deficit and depletion of foreign reserves by:

(i) Cancelling development projects which are not guaranteed external financing;

(ii) rechanelling external assistance to directly productive sectors.

15. Such measures enabled Benin to raise the level of investment financing to 11 per cent from its own resources, Ethiopia to achieve a regular budget surplus of 1 per cent of GDP, Cape Verde and the Gambia to achieve surpluses of 50 million escudos and 42 million dalasis respectively and Guinea and Somalia to cut almost by half their indebtedness to banking institutions. In many cases such measures helped to check monetary expansion. Only four or five cases remain precarious: Chad because of the freeze on external assistance during the war; the Comoros, where the deficit attained 40 per cent of GDP; Guinea-Bissau where, since income covered only 20 per cent of regular spending, serious monetary expansion occurred; the United Republic of Tanzania and the Sudan.

C. Trade with the outside world

16. In 1980-1981, the exports of African least developed countries decreased both in value and in volume by approximately 9.5 per cent while imports increased by approximately 12.7 per cent as compared to 7.5 per cent per annum between 1975 and 1980. Such imbalances were due to the following factors:

(a) The undiversified structure of exports often based on one or two agricultural or mining products;

(b) The production of certain traditional exports such as coffee and bauxite reaching its ceiling;

(c) Fall in the export price index of major products and stability of import prices;

(d) Crisis in the world demand for raw materials.

17. In most countries recourse to import restrictions (through strict exchange control) and export promotion (devaluation of local currencies, doubling of exchange rates) helped to halt the growth rate of the trade deficit which suffered further from the oil bill (12 per cent of the total) and food imports which accounted for 18 per cent of the average total. Transfers (notably by emigrant workers) and capital flows were the stabilizing factors which, together with the import subsidies received notably from IDA, the World Bank Group and such export subsidies as STABEX and credit granted by IMF helped to attenuate if not to off-set the deficit in the balance of goods and services. The structure of foreign assistance received in 1981 is as follows: 65 per cent in concessional aid (88 per cent of that coming from the Development Assistance Committee countries: Australia, Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Finland, France, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States) and 19 per cent being direct technical assistance and 16 per cent non-concessional assistance.

18. The outstanding external public debt of the African least developed countries rose from $10.8 billion in 1980 to $11.5 billion in 1981 or from 2.5 to 2.7 times their export earnings respectively. The debt service rose during the same period from $0.6 billion to $1.3 billion or 13.6 per cent to 24.2 per cent of export earnings.

D. Social sector and socio-economic infrastructure

19. The situation of socio-economic infrastructure is even more precarious. The structures are almost all inherited from the colonial era and their maintenance costs have made them impossible to keep in good working order. Countries such as Benin have certainly benefited from their transit role and others have launched dam and road projects jointly with their neighbours but the infrastructural problem remains one of the major bottle-necks and explains the hopes placed in the United Nations Transport and Communications Decade in Africa.

20. From a purely social viewpoint, the essential problems are education (insufficient number of schools and teachers), health (difficulty of access to health assistance services) and employment (difficulty of promoting labour-intensive projects). In the absence of up-to-date statistical data on these sectors it is difficult to make a quantitative analysis.

PART TWO: ECONOMIC AND SOCIAL POLICIES PURSUED BY AFRICAN LEAST DEVELOPED COUNTRIES

A. Reconstruction policies

21. Apart from countries where war or major political upheavals halted productive activities, those which experienced relative political stability suffered from the underutilization of capacity and the inefficiency of existing organizational structures. For that reason, various measures have been taken to restructure agriculture by:

(a) Soil conservation;

(b) Promoting traditional crops;

(c) Organizing distribution networks particularly by opening them up to the private sector.

22. In the field of industry, the major activity consisted in the launching of comprehensive industrial rehabilitation projects under the auspices of the World Bank with Guinea as the pilot country. The aim of restructuring the State sector was to make State companies and enterprises more profitable whose transfers to the State budget were an essential balancing factor.

23. More generally, African least developed countries undertook financially remedial or structural adjustment programmes formulated with IMF or the World Bank. Those programmes were aimed at improving public finances *inter alia*, by curbing expenditure, keeping the balance of payments in equilibrium on the one hand by controlling imports and on the other by promoting export crops and by intensifying productive activities. While the main objective of those programmes was to improve the balance between domestic supply and demand, they have none the less had the impact of worsening the social conditions of the most disadvantaged strata of society. However, as will be seen in the following country reports, African least developed countries pursued in 1981-1982 policies that should in the long-term produce encouraging results.

B. Investment policies, 1981-1982

24. During the period 1981-1982, more than 12 African least developed countries elaborated or launched individual country development programmes either in the context of their national development or as documents for Round Table/Consultative Group meetings. The investment policies outlined here have been based on such programmes with a view to highlighting how the African least developed countries plan, through investment approaches, to deal with the problems of the structure of their economies, the imbalances in the economic forces as well as the stabilization of the development process. It should, however, be noted at the outset that most of the programmes launched by many African least developed countries have been of the short-or medium-term type covering periods ranging between only two to five years. As such, many investment policies outlined by the countries do not, by and large, deal with long-term socio-economic structural transformation. Indeed many of the programmes aim mainly at recovery, rehabilitation or survival (e.g. Uganda, Chad, the United Republic of Tanzania, the Sudan, etc.).

25. One general feature among the investment policies of the African least developed countries surveyed is the healthy trend of increasing allocations of development resources to agriculture and the rural sector. In most of the programmes analysed, the planned share of investments in agriculture has increased considerably to an average of around 26 per cent of total of public investment outlays. Another sector which has received particular attention in the investment plans of most African least developed countries is infrastructure, especially transport and communications. In more than eight African least developed countries, the average share of investments in transport and communication is as high as 27 per cent of total planned investments. In some cases development programmes have allocated over 30 per cent of the entire development budget in the period 1982-1985 to transport and communications (e.g. Malawi, 37.4 per cent; Lesotho, 36.1 per cent; the Sudan, 29 per cent; Cape Verde, 30.5 per cent).

26. In the financing of the development programme, a variety of measures have been followed to ensure the availability of resources. In general, given the widespread poor budgetary performance during the period when most of the investment programmes were being formulated, most countries placed a lot of emphasis on external assistance. In most cases, the portion of the development programmes envisaged to be financed by external resources is well over 50 per cent (e.g. Mali, 85.6 per cent; Rwanda, 66 per cent; the Sudan 60 per cent). However, this trend does not imply that efforts have not been made to increase the domestic financing of the development programme. On the contrary, even those African least developed countries with difficulties in even financing the recurrent budget have outlined some policies to ensure an increasing domestic contribution to their development programmes. Some of these policies include (a) increasing the share of investments by the domestic private sector, (b) increased mass participation and (c) increased mobilization of domestic resources. Countries like Malawi, Botswana, the Sudan, Uganda, Cape Verde and Mali have either explicitly or implicitly indicated policies directed towards increasing the role of private investors in their development

programmes. In Malawi, the share of investment by the central government is planned to contract from 58 per cent in 1981/82 to 52 per cent in 1985. In Botswana, a Presidential Commission for Economic Opportunities was set up to review and encourage participation of citizens in developmental and other projects while in the Sudan a policy of promoting a greater participation of the private sector is to be followed. In Uganda, private participation has been encouraged and companies which had been nationalized by the former military regime were returned to private ownership and control.

27. The policy of increased mass participation has also been articulated in many of the development programmes of African least developed countries. Guinea-Bissau, Cape Verde and Ethiopia for example have indicated mass mobilization for development to be one of their major policy approaches. In Rwanda, the community actually participates in executing certain projects. The 1982-1986 development plan of Rwanda has even been able to estimate that as much as 10 per cent of the planned investment originate from the participation of the people in community projects under the UMUGANDA programme.

28. Another interesting feature of the investment policies adopted in the 1981-1982 period is the increased selectivity in projects in response to the problems of resource scarcity, project implementation and underutilised capacities. In this regard many countries have set specific criteria for projects to be undertaken during their respective plan periods. In some countries like the United Republic of Tanzania and the Sudan, the starting of new projects has been greatly curtailed with emphasis being put on completing ongoing projects, rehabilitation of old projects or projects with important structural adjustment effects. Malawi, for its part, has indicated that the major emphasis will be on those projects of the commercial type capable of yielding high returns. Uganda on the other hand chose projects on the basis of the project's capacity to (a) earn or save foreign exchange rapidly; (b) stimulate industrial and agricultural production; (c) positively influence Government's recurrent budget; (d) sustain and enhance economic recovery and growth; and (e) have an urgent effect at the humanitarian and social level. Many countries also avoided projects that are capital intensive, or have high recurrent costs.

29. On the basis of some evaluations of the performance of earlier plans, some countries have also indicated the need to improve plan investment effectiveness. A lot of emphasis in this field was placed on improving procedures of plan preparation, implementation and monitoring. In some countries it was recommended to create planning cells in the various production units and to establish permanent evaluation structures to monitor the plan's resource mobilization and utilization.

C. Export promotion policies

30. Export promotion policies are followed on the main to improve the balance-of-payment position. The poor performance of the export sector among the group of LDCs remains a basic problem because of the nature of the exported commodities and the structure and pattern of production. The group of LDCs as a whole share common characteristics. First, they are predominantly agricultural economies with only few exceptions with a significant mineral sector. Second, the export structure is highly inflexible as exports are heavily concentrated in only one or two items, in the majority of cases agricultural products or livestock. On the external field, the development of the export sector in African LDCs was seriously handicapped by the reduced foreign demand, the development of technology of synthetics and substitutes, protectionist policies and quota restrictions imposed by the developed countries, the severe competition from labour-intensive products from other developing countries and the weak competitive bargaining power in international markets. Equally adverse internal factors, have constrained the supply side, most notably declining agricultural productivity and the low levels of capacity utilization in the key sectors. These have been further aggravated by such factors as bad weather conditions, management difficulties, shortages in basic inputs and skilled labour and lack of adequate transport systems. Realizing these failures, most Governments of African LDCs are determined to reverse such a trend by initiating a set of measures and policies affecting both the internal as well as the external sectors.

31. On the supply side corrective measures were taken by most countries to build and strengthen the productive capabilities of the sectors that contain the dominant export industries. In this context, the agricultural sector received more attention. In Uganda high priority was given to the development of agriculture and in particular coffee which constitutes 90 per cent of total exports in the package of reforms and policy measures announced by the Government in June 1981. Similarly, the Structural Adjustment Programme of the United Republic of Tanzania in 1982 orienting resources towards production for export. In the Sudan, an export action programme was launched in 1981 by the Government to boost production for export which calls for an expanded agricultural rehabilitation programme. To that effect, the joint account and profit sharing system for cotton, the major Sudanese export crop, was replaced by individual accounts and each tenant is charged only the cost of services rendered by the Government and the Gezira Board to his tenancy. In Somalia, priority in the development plans is primarily given to the development of the livestock export sector through intensification of animal health and organization of livestock marketing in support of the export trade. The vulnerability of export proceeds associated with the overdependence on one or two major export crops, led some countries to resort to diversification policies but with little success owing to the rigidity of the export base. Burundi launched a programme of agricultural recovery with the objective of diversifying the agricultural export crops and the development and inititation of new crops such as quinquinna and soya. The Sudan, guided by international price signals, was forced to change its crop rotation pattern in favour of the production of oilseeds.

32. With most of the LDCs, the pricing and marketing policies, on the whole, have not been stimulative enough for the export drive recently attempted. However, measures were taken by most countries within the group to increase producer prices of agricultural products to trigger a favourable supply response. In Benin, the producer prices of export crops have been revised for the 1980/81 season after having remained frozen for a long time. In an effort to stimulate the production of export crops in the Upper Volta, significant price increases were granted to producers. In addition to direct price incentives, the Government provided fertilizers and insecticides at subsidized prices. To boost production, the Government decided to establish a stabilization fund to help to insulate producers from temporary adverse price movements. In Uganda, the removal of price controls and the rise in producers' prices had a noticeable effect on the production of coffee, the major export crop. In Somalia, the programme of economic recovery aimed, among others, at the liberalization of price policies to stimulate domestic production for exports. To guard against fluctuation in prices of major export crops, the Sudan has established a price stabilization fund for cotton exports.

33. Many LDCs have resorted to devaluation as a mechanism for raising the competitive stance of their exports in international markets, as it is seen that the relative prices of exports, valued at the official exchange rate, often resulted in a reduction of production incentives for exports. In the Sudan, cotton exports were removed from the official to the parallel market exchange system in September 1981 to provide more incentives to tenants to enhance their production. In Somalia, the revival of exports in 1981 was attributed to the devaluation of the Somali shilling and to the manipulation of the new dual exchange rate on the side of exports. In Botswana, the devaluation of the pula by 10 per cent in May 1982 was meant mainly to improve the international competitiveness of local production. However, with most of the countries devaluation has not produced the desired effects on exports mainly because of the inelasticities associated with the supply of export crops and because most of these countries are generally price takers in the international markets.

34. Export promotion policies, in most countries have been geared to the advantage of exploiting their relatively abundant labour and natural resource factors. To this effect, most of the policies were directed towards stepping up the degree of further processing and manufacturing of export crops to improve the quality and to earn more foreign exchange. In some countries, export premiums and incentives are granted to industries that were able to increase their export load and upgrade the degree of processing. Many Governments, to encourage the flow of resources into the export processing zones especially into those with an export viable potential, have adopted specific export-oriented policies to provide for fiscal incentives such as export subsidies, income tax concessions, export credit and priority in transport, etc. With this policy, Benin with its large vertically integrated textile mills, met striking success and was able to capture part of the textile market in the Federal Republic of Germany. In the Sudan, this policy was further supported by the partial removal and reduction of taxes on exports.

35. Owing to trade restrictions, protectionist policies and the imposition of quota restrictions by developed markets on the labour-surplus products of developing countries, many African LDCs have recently adopted various policies in support of the diversification of their export outlets by pursuing marketing opportunities in African markets and other developing regions. Botswana and Lesotho main policies in this field are directed towards the gradual move from dependence on South Africa by strengthening and establishing trade links with African countries.

36. The peculiarity of these economies visualized through their disadvantaged geographical location - quite a number of them being land-locked with undeveloped infrastructure - constitutes an added difficulty to the development of the export sector. Since the adequacy of the transport system especially for transit trade is one of the crucial areas for developing the export industry, many countries have paid considerable attention to the improvement and development of the transport system.

D. Price policies

37. Much attention has been devoted to the formulation of proper pricing policies with a view to regularizing the operation of the economy. The pricing policies pursued covered both the supply and the demand sides. On the supply side, most countries revised producer prices of the majority of agricultural crops upwards with a view to stimulating agricultural production. In some countries producer prices of major crops have been brought up in line with international prices. On the other hand, with most countries such a policy has initiated huge amount of subsidies especially on the side of staples. In the Sudan, as well as in other LDCs, wheat and sugar were intensively subsidized. Conversely, cost recovery schemes have been advised with a view to reflecting actual cost of production. In the Sudan, prices of public utilities have been increased in order to recover full costs.

38. On the demand side, inflationary tendencies reflected by the rises in the general price index have been, in most countries, the outcome of the growth in money supply, production bottlenecks and the rises in import prices. Many policies were therefore pursued so as to control such tendencies. Most LDCs have devised price stabilization policies and price control systems for most of the staples and set the profit rates along the various marketing channels. In the Central African Republic, the prices of staple foods has - rocketed as a consequence of price decontrol. Similar effects were witnesssed in Uganda and the Sudan. In Uganda, the removal of price controls produced a favourable impact on the elimination of smuggling by encouraging more use of official market channels and the reallocation of resources away from speculative activities.

E. Monetary policies, 1981-1982

39. The overall developments in the monetary field in 1981-1982 involved a generally fast expansion in the supply of money especially in relation to the overall growth in GDP in the individual African least developed countries. The single major cause of the expansion in money supply in many of these countries was the very fast expansion in domestic credit which in some case doubled between 1980 and 1981. In most cases the expansion in domestic credit stemmed to a large extent from increased claims by the banking system on government. In other cases, however, the increased monetisation of the economies (Rwanda), decreases in net deposits by government in the banking system (Botswana) and increases in foreign assets (Benin) contributed significantly to the expansion in money supply.

40. Many of the African least developed countries have instituted the familiar quantitative and qualitative controls, usually through the Central Bank, to influence the trends in the monetary field. It should, however, be noted that the possibility of applying the traditional tools of monetary management is limited by- the structural characteristics of the money market in the least developed countries. In many cases, the banking and financial system in the African least developed countries is under-developed, and in addition the non-monetised (subsistence) sector is very large.

41. Despite such constraints on the efficiency of monetary management tools in the African least developed countries many countries have followed monetary policies which include (a) limiting deficit financing; (b) giving sectoral priorities and setting ceilings on private short-term credit; (c) establishing limits on the liquidity or reserve requirement ratios; (d) setting obligatory reserves and rediscounting ceilings; and (e) adjusting interest rates. Many of these policies have been in force for a long time in most of the African least developed countries and, as such, during the period 1981-1982 most countries continued to pursue them, albeit with some adjustments or changes in emphasis. Over all, the trends in monetary policies were characterised by tighter controls on credits and increased incentives for deposits. In addition, some countries promulgated new monetary policies in response to the world-wide trend of very high interest rates.

42. During the period 1981-1982, many countries focused attention on domestic-credit to the public sector as one of major factors exerting pressure on the expansion of money supply. In this area, policies concentrated on limiting government recourse to the banking system for credit. For example, the Sudan set limits to government borrowing and there are plans to institute a policy totally eliminating government borrowing in 1983-1984. Botswana has reduced recurrent expenditure so as to ensure that the budgetary deficit remains at a maximum of 80 million Pula. Ceilings on credit administered by regional central banks are also in operation for countries in the franc zone.

43. With respect to private credits, many Governments adopted restrictive credit policies, usually with ceilings on the rate of expansion in private credits. Somalia for example set an upper limit of 7 per cent for private credit expansion. For the countries of the franc zone, central banks set a ceiling of CFAF 30 million with any credit beyond this amount being given only with the authorisation of the central bank. Other countries like Malawi, Lesotho, Botswana and the Gambia have tried to influence the rate of expansion of private credit through the mechanisms of domestic interest rates and liquidity ratios. Botswana raised domestic interest rates twice during 1981 with the prime lending rate for commercial banks increased by one and half percentage points to 10.5 per cent in July and further to 11 per cent in December 1981. The Gambia among many other countries operated an elaborate system of a minimum liquidity ratio for commercial bankers. The system was however later replaced by a reserve requirement ratio. Along these lines, some countries also undertook to increase commercial bank deposits and other forms of savings.

44. It should nevertheless be pointed out that, although tight credit policies had to be pursued by many African least developed countries, their repurcussions on the economies of some of these countries often brought about other difficulties. In some countries credit squeezes created such serious liquidity problems that some countries could not manage to pay their employees during certain periods. In other cases credit plays an important role in critical areas like the financing and marketing of agricultural produce and its inavailability could result in the wastage of products or disincentives to farmers who might not be paid for their commodities. It would therefore seem that credit control policies have to be supplemented by a policy that ensures that financing is made available to the critical sectors of the economy.

F. Exchange rate policies, 1981-1982

45. As a result of continued domestic monetary problems as well as balance-of-payments difficulties in many African least developed countries and the general financial problems at the world level many African least developed countries had to adopt some form of exchange rate adjustments during the 1981-1982 period. This trend was particularly pronounced in those LDCs that are not part of a monetary union such as the CFA monetary union. Thus among the 14 African least developed countries that do not form part of the integrated CFA zone, six countries (Malawi, Uganda, the Sudan, Somalia, Botswana and the United Republic of Tanzania) adopted new exchange rate policies during 1981-1982. In addition, even the seven countries of the CFA zone (the Upper Volta, Benin, Mali, the Niger, Chad, the Central African Republic and the Comoros) had a de facto devaluation of the French franc in 1982.

46. In general, the foreign exchange rate policies followed varied according to the problems in the different African least developed countries. However in many cases the policies included the following elements either singly or in some combination: (a) straightforward devaluation; (b) floating of domestic currencies; (c) changing the foreign currencies to which the domestic currencies are pegged; and (d) the establishment of some forms of multiple exchange rate regimes.

47. Straightforward devaluation took place in the United Republic of Tanzania, Malawi, the Sudan and Botswana with the rates of devaluation ranging between 10 per cent and 45 per cent. In the United Republic of Tanzania, the devaluation of the Tanzanian shilling by 10 per cent on 8 March 1982 came after prolonged negotiations with IMF which had recommended a 50 to 60 per cent devaluation. The major arguments for the need to devalue the shilling were that the Government would be able to pay higher prices to farmers and at the same time bring the shilling closer to its market value. The Government felt, however, that a large devaluation would have had a disastrous impact on import costs and would as a result fuel inflation. The final 10 per cent devaluation would therefore seem to have been undertaken by the Tanzanian Government with due regard to domestic problems and, indeed, the devaluation was described as an adjustment to the fluctuations in the dollar and other currencies to which the shilling is tied.

48. In Malawi which devalued its kwacha by 15 per cent on 24 April 1982, the major concerns of the Government related to the expanding trade gap. The devaluation was therefore envisaged to exports and reduce imports. Botswana in 1980 changed the pegging of the pula from the United States dollar to a basket of currencies consisting of the Rand and special drawing rights (SDR). Initially this measure had the positive effect of dampening the gyrations of exchange rates against the pula. However, following the depreciation of the rand in 1981-1982, it became necessary to realign the value of the pula and a 10 per cent devaluaion was effected in 1982.

49. The results of these devaluations cannot as yet be positively assessed as many economic elements like export increases, import reductions and domestic price equilibria take some time to respond to the policy. It however seems that in cases where devaluation is not accompanied by significant increases in export producer prices, the scope for increasing the volume of export crops is limited. Similarly, significant cuts in import volumes seem unlikely despite the immediate increases in domestic prices for imported products. What however seems certain is that devaluation has been accompanied by an acceleration in the domestic rates of inflation, at least in the short run.

50. The Sudan, Somalia and Uganda adopted a combination of exchange rate policies incorporating in each case a dual exchange rate system. For the Sudan, the exchange reform started in June 1978 when the Sudanese pound was devalued by 25 per cent. In September 1979, a dual exchange market system was introduced with the official market rate of the Sudanese pound set at £Sd 1 = $US 2 and a parallel rate applied to about 40 per cent of imports and private transactions of £Sd 1 =$US 1.25. This exchange reform was further followed up by more devaluations of 25 per cent in November 1981 and 45 per cent in November 1982. Somalia adopted a major stabilization programme in mid-1981 involving a devaluation of the Somali shilling by 50 per cent for all foreign transactions except for imports of specified essential goods. Similarly Uganda instituted a "managed" float of its shilling in June 1981 resulting in a 100 per cent de facto devaluation. The floating was followed up in August 1982 by a two-tier exchange rate system with the currency windows.

51. The purposes of instituting such exchange rate policies adopted in these countries involve the elimination of the problems of overvalued currencies resulting in large domestic price distortions as well as a black market for foreign currencies, soaking up the high levels of currency in circulation, increasing

government revenue, enabling higher export producer prices and stabilizing the external balance-of-payments position through increased exports and remittances and reduced imports. The degree to which these problems have been alluviated by the foreign exchange policies has varied owing mainly to the difficulties of applying such policies in developing economies with particularly deep-rooted structural bottlenecks. For example while devaluation in developed countries is likely to boost exports because of increased external demand (as exports will be cheaper after devaluation), exports of developing countries have in general tended to be demand inelastic. Indeed some of the major exports of the least developed countries involve export quotas implying that the effects of demand on the volume to be exported is almost negligible. As a result, the foreign exchange rate policies adopted would have to focus on the supply of export commodities via increased incentives such as increased producer prices. While this aspect seems to have worked in the case of Uganda in the short run, it should be noted that in cases where most agricultural inputs are imported, costs to farmers will increase thus tending to cancel out the benefits of increased producer prices. On the import side, the dual exchange rate system is assumed to discourage imports of luxury goods while maintaining the level of essential imports. However as was observed in the Sudan and Uganda after the institution of the dual exchange rate systems, the essentially auction market for foreign currencies tends to favour luxury items with high profit margins. This, in turn, results in a problem of a market lacking in essential goods but abounding in luxury goods. Also, the Ugandan case has illustrated the fact that the dual exchange rate system can result in pressures on government organs which, in having to import certain items, have to go to the auction market thus paying high prices in domestic currencies. This has resulted in a problem of very restricted operational liquidity for government structures and parastatals.

52. With regard to the elimination of domestic price distortions, the Ugandan experience has shown that its two currency window system could have some positive effect especially in reducing the black market for foreign currencies. What however remains to be seen is how a uniform exchange rate can eventually emerge in the medium term.

C. Budgetary policies, 1981-1982

53. During 1981-1982, the budgetary situation of many African least developed countries worsened. Among the African LDCs, available data shows that less than five countries were able to record a surplus or maintain a balance on their overall budget - recurrent and development. Even countries which traditionally had a healthy budgetary position experienced deficits in the 1981-1982 period. Indeed, it would seem that many countries were in the uncomfortable position of having to look for external assistance to finance not only their development budget but also their recurrent budget.

54. The reasons for the deterioration in the budgetary performance of most of the African countries during 1981-1982 included firstly foreign exchange problems which constrained production, thus reducing the volume of revenue from sales taxes. Also the foreign exchange scarcity often necessitated reductions in imports and, as a consequence, government revenues from import duties either stagnated or declined. The second problem which greatly affected the budgetary situation of countries like the Niger, the Comoros, Botswana, Ethiopia and Rwanda involved the loss of revenue from export commodities. In some cases the fall in world prices for the major exports of these countries resulted in substantial losses of government revenue while, in other cases, the decline in the actual volume of exports resulted in losses of revenue from export taxes. A third problem which affected countries like Malawi, Mali, Somalia, etc., is that of financial pressures of public enterprises. In the case of Malawi, the liquidity problem of many public enterprises made the Government incur expenses from the government budget so as to carry these enterprises over their cash crises. In other cases pressures on the government budget from the public enterprises resulted from the heavy subsidies to these structures or from the heavy wage bill. Lesotho also suffered from a unique problem of belonging to a customs union with limited capacity to introduce independent fiscal measures to increase revenues from import or export duties. Finally, project cost overruns, general wastage and inefficiency also contributed to poor performance of the government budgets in some countries.

55. As a result of the general worsening budgetary trends, many African least developed countries instituted a variety of interesting measures aimed at both increasing government revenue and curbing or improving the efficiency of government expenditures. On the revenue side, many policies were geared to improve government revenue by increasing the tax base, increasing the taxation rates, introducing new taxes, improving tax administration and increasing the contribution of non-tax revenues. Thus for example in reviewing the revenue structure, Botswana aims at elaborating measures that will not only be easy to implement with the existing administrative machinery but will also, as far as possible fall on those parts of the community that can afford to pay. However, other countries like the United Republic of Tanzania and the Upper Volta seem to have problems of having little scope for higher taxation.

56. Among the specific measures pursued during 1981-1982 mention should first be made of the introduction of increased prices for petroleum either by removing subsidies or imposing higher import duties. This measure, which is known to have been attempted in Uganda, Ethiopia, the Sudan and the Gambia, promises to have important and positive effects on the revenue structure of this country. It should be emphasized that it is apparent that in many African countries the import duties have been low relative to those applied in developed countries. Another specific measure pursued in countries like Ethiopia involved the introduction of non-tax revenue from public enterprises which are required to transfer a sizable part of their gross profits to the Government. In the area of public corporations, Mali increased the prices charged by these bodies so as to improve on their performance and also increase its revenue capacity from duties on the corporation's products. Somalia similarly abolished import tax exemptions to public enterprises and was able to record a substantial increase in revenues from import duties.

57. In view of changes in import cost structure in the domestic market after devaluation, Uganda established sharply higher tax rates and substituted ad valorem rates for specific rates on imports. Foreign currency auctioning was also instituted with a large positive effect on government revenues.

58. In order to curb government expenditure or to improve the budgetary efficiency many of the policies of the least developed countries in this gi field were characterised by austerity measures with some countries undertaking to set a ceiling to their overall budgetary deficits. To limit government expenditures, the conditions prevailing in each individual least developed country play an important role since certain priorities cannot be easily foregone. However, the range of measures adopted shows how far some countries have had to go in an effort to curtail the growth in public expenditure. For example in Mali, steps were taken to reduce education grants and fellowships. In the same country as well as in the Upper Volta, Cape Verde and Somalia strict recruitment policies were adopted so as to stem the expansion in the wages and salaries bill to government. In Mali the volume of employees in State enterprises was to be reduced while in the Upper Volta recruitment at the lower levels was to be tightened and in Somali the policy of guaranteed employment for school leavers was moderated.

59. A second area where some Governments of African LDCs sought cuts is that of subsidies. In the Gambia and Ethiopia subsidies were reduced on traditionally subsidiesed agricultural inputs like fertilizers. Subsidies on consumer goods like sugar and rice were also reduced in the Sudan and the Gambia respectively. Besides subsidies to inputs and consumer goods, reduction in assistance in the form of subsidies to public corporations was also identified as one area of potential savings by some Governments. Other Governments concentrated on improving the performance of public enterprises. In this respect Malawi even set a target on the rate of return that public projects must achieve if they are to be approved while the Sudan proposed to dissolve public companies that were making persistent losses.

60. Finally in addition to a freeze on budgetary allocations to ministries, some African least developed countries proposed to limit the government development budget by concentrating on either ongoing projects or only those new projects with substantial structural effects or immediate revenue-earning capacity. However in spite of the variety of budgetary policies proposed by the different African least developed countries only one country are known to have established a system of monitoring and therefore ensuring effective control of government expenditures.

BENIN

1. Economic trends

(a) General growth

61. Delays in the publication of national accounts and the unreliability of available statistics make it difficult to conduct a quantitative analysis of Benin's economic development. The available estimates indicate that the 22.1 per cent increase in GDP at current prices in 1981 reflected near-zero or even negative growth in real terms attributable to the difficulties experienced by the rural sector, the deterioration of industrial enterprises and the delay in implementing certain projects of the 1977-1980 development plan.

(b) Sectoral trends

62. Agriculture and trade, accounting for 45.1 and 29.5 per cent of GDP, remained the predominant sectors of the economy even though agriculture diminished somewhat in importance. There was a slight improvement in the rate of slowdown of the rural sector. Food crop production, dominated by tubers, decreased by only 1.1 per cent as compared to 10.9 per cent in 1980 while industrial crop production, dominated by groundnuts (43.2 per cent) and oil-palm (40.5 per cent), fell by 1.9 per cent as compared to 7.3 per cent in 1980. This poor performance was due to the fact that oil-palm plantations were old, there was not enough fertilizer, nor were prices remunerative enough; other contributory factors were insufficient rainfall, the interference of the Nigerian market and the complexity of distribution mechanisms which made farmers, in some cases, limit production to their consumption needs.

63. The trade sector benefited from official and non-official reexport to Nigeria and from the transit role played by the port of Cotonou following the saturation of the Nigerian ports. Since 1977, trends in the sector have reversed and its value added has stabilized around 27 to 28 per cent of GDP as a result of strict import control and the application in Nigeria of a tariff protection system to promote locally manufactured products. To these externally generated difficulties can be added such internal constraints as the inadequacy of transport infrastructure, the unwieldly nature of State marketing circuits and the general decline in such directly productive activities as agriculture and industry.

64. The industrial basis of the country, composed of agro-food industries (particularly oil-palm) and textiles, suffered from the fall in industrial crop production levels. The late implementation of industrial investment of the first State plan, a price policy based exclusively on maintaining purchasing power without a substantial increase in income, the lack of protection for infant industries and the unencouraging wage policy resulted in an increase of only 10 per cent in 1981 (or approximately -6.2 per cent in real terms) of the industrial value added at current prices as compared to 16.3 and 15.3 per cent in 1980 and 1979 respectively.

65. Accounting almost constantly for 7.3 per cent of GDP, construction and public works experienced a value added increase of nearly 25 per cent as compared to 7.9 per cent in 1980, creating six times as many jobs as in 1971 (21,200 as compared 3,800) and exerting a substantial pull on such crafts as carpentry and plumbing. The growth was largely due to the need of the economy for both housing and infrastructures for opening up the hinterland, and to the speculative lure of private real estate construction.

66. Transport and communications and other services which account each for approximately 8 per cent of GDP and are closely linked to the volume of trade transactions remained almost stagnant because of the above-mentioned difficulties (general down-swing in economic activity);

67. On the demand side, consumption accounted for 93.8 per cent of GDP reflecting an average propensity to save as low as 0.62 per cent for nationals as compared to 107 and 102.2 per cent in 1980 and 1975. The investment rate, which was 25 per cent in 1975, fell to 16 per cent in 1968 and then to 15 per cent in 1981 because of scant domestic savings, heavy dependence on external financing and the worsening of the foreign exchange deficit from 5.3 to 12.8 per cent of GDP in 1971 and 1981 respectively. Eighty-four per cent of investment went into unproductive socio-economic infrastructure and processing industries that have not yielded expected results because of the lack of qualified manpower and the non-existence of an entrepreneurial class.

(c) External trade - balance of payments

68. Exports of goods and services increased by 38.3 per cent in 1981 as compared to an annual average of 12.4 and 6.6 per cent in 1975 to 1980 and 1970 to 1975. This steep rise was due to the growth in traffic at the port of Cotonou (largely re-exports to Nigeria). It would appear that the growth rate of the percentage of domestic production exported increased from 5.8 to 8.7 per cent only from 1977 to 1980.

69. Imports increased by an average of 14.8 per cent yearly from 1971 to 1981. However, given the low growth rate of the economy and of investments, imports seemed to be dominated 63 per cent by consumer items while capital goods accounted for about 21 per cent only. The faster growth of official and non-official exports in relation to imports enabled the country to reduce its trade balance deficit of $57.5 billion in 1980 to $55 billion. While the balance of trade in goods and services worsened by 14.1 per cent during the same period because of the 64.4 per cent fall in net non-factor services. Net unrequited transfers and net capital flows (particularly for financing the plan) seem to have provided a surplus of $11 billion (taking into account non-official exports), $1.1 billion of which was accounted for by official flows.

(d) Budget and monetary situation

70. There was an imbalance between the rate of growth of the economy (almost zero) and the rate of expansion of the money supply (15.8 per cent in 1981 against an annual average of 19.6 per cent from 1971 to 1980). Since the money supply grew at a faster rate than the supply of goods and services and

speculators hoarded their money, inflationary tensions were sharpened. Domestic credit fell by approximately 2.1 per cent in comparison to 1980 because of the 23.1 per cent improvement in the government's credit rating with banking institutions.

71. The wage freezing policy pursued until 1979-1980 enabled the State to bring down the annual growth rate of its budget spending to 9 per cent while earnings increased by 12.5 per cent during the same period. The budgetary savings thus achieved reflected only 11 per cent of the value of public investments, with most of the financing provided by external sources.

2. Adjustment policies and development prospects

72. In 1981 the experience acquired in implementing the Plan for the triennium 1977-1980 was evaluated with particular regard to direct public intervention in the economy - (definition of areas and modes of intervention). Thus, the general economic policy measures implemented dealt with:

(a) Promotion of private initiative;

(b) Improvement of the State sector;

(c) Fiscal policy;

(d) Prices and incomes policy;

(e) Monetary policy and

(f) External trade.

73. The first two measures are complementary and aim at strengthening the management capabilities of State companies and enterprises and involving medium- and small-scale enterprises in the national development effort. The two instruments utilized in that policy are bank loans and the removal of certain insitutional, economic and management constraints:elimination of the State's arbitrary fixing of certain prices, elimination of certain middlemen involved in the purchasing of raw materials and the distribution of finished products.

74. In order to absorb the surplus domestic supply thus created and to finance the necessary investment, an incomes policy was initiated which resulted in:

(a) Households. The upgrading of salaries and the elimination of taxes on over-time work as incentives to increase productivity and income (additional cost of staff expenditure-CFAF 6 billion); and

(b) The State. The reform of the fiscal system: taxes of 42 per cent and 30 per cent were levied on the industriel and trade profits of private companies and enterprises respectively, 21 per cent on domestic trade in goods, 15 per cent on services and 18 per cent on productive activity. The State can now cope with the increase in public investments while modulating imports from non-ECOWAS countries.

75. The monetary policy, while keeping Benin in the franc zone and under the jurisdiction of BCEAO, resulted in the nationalization of all banks. The priority objective was to mobilize accumulated savings generated by an overly rapid monetary expansion to the benefit of the small-and medium-scale enterprises mentioned above.

76. External trade will have to be balanced by discouraging the import of non-essential goods and diversifying and promoting exports. The economy of Benin is highly dependent on that of Nigeria both with regard to transit goods and exports. The economic difficulties being experienced by Nigeria because of the fall in world demand for petroleum products therefore point to a slowdown in the growth rate of the economy of Benin which is estimated to be 19.2 per cent in 1982. However, implementation of the above-mentioned measures and of the major projects of the plan (Save sugar factory and the ONIGBOLO Cement factory) as well as the exploitation of the SEME oilfield provide promising development prospects for an independent, endogenous and self-sustaining economy.

BOTSWANA

1. Economic trends, 1981-1982

(a) Overall growth trends

77. Until 1982, Botswana has enjoyed respectable rates of overall growth with a high real growth of GDP (at 1974-1975 constant prices) of 14.4 per cent in 1979-1980 and 14.8 per cent during 1980-1981. However, during 1982 the Botswana economy was hard hit by relatively poor weather conditions and by the world recession particularly in the diamond industry. As a result overall GDP growth in the period 1981-1982 is estimated to be only around 1.5 per cent or less. In 1980-1981 output in the mining sector, which is the leading sector of the economy, declined mainly as a result of a fall in diamond production although production of nickel-copper matte and coal increased. Over-all, the decline in the mining sector in 1980-1981 plus the stagnation in prices of Botswana's mineral exports resulted in significantly reduced export earnings with a subsequent bulging in the balance-of-payments deficit, reaching 61 million pula in 1981.

78. Similarly, the slowdown in the mineral sector which accounts for over one third of government revenues, resulted in an expansion of the government budget deficit in 1980-1981. The agricultural sector performed well in 1981 owing especially to the cattle subsector which recovered from the foot-and-mouth disease problems of 1980. In the 1980-1982 period, the structure of the Botswana economy underwent some slight changes. Although the mining sector continued to dominate the economy of Botswana its share in total GDP declined to around 26 per cent in 1980-1981 as compared to a share of around 32 per cent in 1979-1980. On the other hand, the share of the agricultural sector increased from 10.9 per cent in 1979-1980 to over 12 per cent in 1980-1981. The shares of the trade and hotels as well as the general government sectors increased in the period while those of construction and social services stagnated.

79. On the side of expenditures on GDP, total consumption grew fast between 1980 and 1981. Public consumption expenditure increased by 34.3 per cent from 129.7 million pula in 1979-1980 to 174.2 million pula in 1980-1981. Private consumption increased by 25.5 per cent in the same period from 350.3 million to 439.8 million pula. These sharp increases in consumption have increased the share of consumption in total GDP from 69.6 per cent in 1979--1980 to 77.1 per cent in 1980-1981 thus implying a sharp drop in the domestic saving rate. However, despite the decline in the domestic saving rate, gross fixed capital formation increased by 16.3 per cent between the periods 1979-1980 and 1980-1981 reaching a level of 289.4 million pula and a share in total GDP of 36.3 per cent in 1980-1981. In addition, during 1980-1981, there was a sharp increase in stocks mainly as a result of the stockpiling of diamonds in 1981.

(b) Sectoral trends

80. During the period 1980-1981 agricultural output in Botswana expanded by about 28.8 per cent to 97 million pula from 75.3 million in 1979/1980. The increase in agricultural output was mainly due to good weather conditions which were accompanied by an increase in the total area under plantation to 280,000 hectares. However, although the production of the main staple crops (sorghum, maize, millet and pulses) rose to 54 285 tons a part of domestic food consumption requirements remained uncovered. The livestock sector which is the major component of agriculture in Botswana, experienced a clear recovery in 1981 reaching a cattle off-take of 202,000 as compared to an off-take of only 140 783 head in 1980. Beef exports also increased significantly. The agricultural performance during 1981-1982 was, however, less encouraging since the country experienced a drought during this period.

81. The mining sector, generally suffered from the world recession in 1980-1981. As a result, the volume index of mining production (1976 = 100) increased only slightly from 161 in 1980 to 169 in 1981 mainly because of increases in coal and nickel-copper production. The production of diamonds declined from 5.1 million carats to 4.9 million carats. Most importantly, given the relatively low world prices for Botswana's major mineral products, the value of production for the year 1981 declined to only 285.8 million pula as compared to a production value of 301 million in 1980. In addition, the continued world economic slump in 1981 constrained the sales of diamonds.

82. As a result, the value of diamond exports in 1981 fell by almost 100 million pula relative to 1980 and a large quantity of diamonds had to be stockpiled in the latter part of 1981. Nevertheless, diamond production in Botswana is expected to increase considerably in the 1980s when the Jwaneng mine, which was commissioned in December 1981, starts full production. By some estimates, Botswana could reach a production level of 10 million carats a year by the mid-1980s. Coal also promises to become a major mineral export for Botswana. Already an agreement has been signed by the Government and Shell Company for the development of a mining project for coal exports. In 1981 Botswana produced a total of 380,700 tons of coal.

83. The manufacturing sector in Botswana is small and is dominated by the Botswana Meat Commission (BMC) involved in the processing of meat. With the recovery from the foot-and-mouth disease in 1980-1981, the throughput at BMC increased and, consequently, value added in manufacturing increased significantly from the low levels recorded in 1979-1980. The Government has also made efforts to revitalise and diversify the manufacturing sector. These measures aim at improving the infrastructure, the removal of restrictions and dissemination of information on investment opportunities in Botswana. In this regard a Trade Promotion Unit was set up and the activities on the Botswana Enterprises Development Unit are being streamlined for more effectiveness. Also a financial assistance policy is being worked out to encourage labour-intensive schemes in areas outside the urban centres so as to contribute to the resolution of employment and rural development problems.

(c) Fiscal and Monetary trends

84. Government revenue increased from 301 million pula in fiscal year 1980/81 to a revised estimate of 319 million in 1981/82. Over the same period, total government expenditure including net lending increased from 304 million to 339 million pula thus implying an overall budgetary deficit of 20 million pula. This performance was however better than had been anticipated mainly because of (a) improved revenue collection which added 10 million pula to actual revenues; (b) savings of 12 million pula on the recurrent budget; (c) lower expenditure on the development budget; and (d) less withdrawals by the parastatal organisations. Current estimates for the 1982/83 budget indicate a budgetary deficit ceiling of 80 million pula with government recurrent expenditure estimates reduced by 25 per cent from the original 293.9 million pula and the development budget reduced to 140 million.

85. The major monetary trend in 1981 was that total money supply contracted by about 4 per cent mainly as a result of a fall in the net foreign assets of the banking system. The Government's healthy trend of having net deposits in the banking system slackened slightly with government net deposits dropping down to 67.4 million pula in 1981 as compared to 92.1 million in 1980. At the same time, claims on the private sector increased from 97.1 million pula to 144.4 million, a trend which might have been one of the factors that necessitated the rise in the interest rates in Botswana in July and December 1981.

(d) Foreign trade and balance of payments

86. According to latest estimates, the total value of exports declined from 390 million pula in 1980 to 349 million in 1981. Exports of diamonds, which accounted for over 60 per cent of total export earnings in 1980, declined to only 145 million in 1981. Nickel-copper matte exports, suffered from depressed prices resulting in a decline in value to 79 million pula as compared to 31 million in 1980 in spite of increases in volume. Beef exports, on the other hand, recovered considerably in 1981 to reach a value of 80 million pula.

87. The value of imports increased to 668 million pula in 1981 being 24 per cent higher than the 1980 figure. At this level of imports, Botswana experienced a considerable deficit on the merchandise account. Indeed, the favourable balance-of-payments trend that had been characteristic of Botswana's economy swang from a surplus of 72 million pula in 1980 to a deficit of 61 million in 1981.

2. Major problems and policies

88. The major problems that the economy of Botswana faces are mainly in the leading sectors of mining and agriculture, especially crop production. Owing to the importance of mineral products for export earnings and government revenue, any adverse developments either in mineral production or external marketing have very serious implications on the economy as a whole. As

outlined above, the world recession has had tremendous repurcussions on the sales and price levels of Botswana's main mineral exports namely diamonds, copper and nickel. This, in turn, has resulted in balance-of-payments deficits and budgetary problems.

89. In view of the vulnerability of the mineral sector to events beyond control of Botswana, the Government has initiated a series of measures aimed at diversifying the production base of the economy. Firstly in fiscal year 1982/83, a Productive Employment Development Fund is to be set up with the aim of increasing the level of productive employment in small and large enterprises so that additional output and jobs can be generated without the need for continuous government support. Secondly a Presedential Commission on Economic Opportunities was established to review and encourage the participation of the citizens of Botswana in the development of the country. The Commission will examine existing laws, regulations, incentives and administrative practices of the Government and assess their impact on the contribution of both citizens and non-citizens to the overall development of the economy. Thirdly, to encourage further diversification into agriculture, the Botswana Agricultural Marketing Board was restructured and a new pricing policy introduced with different producer prices for the different parts of the country.

90. Further, the Government took other measures to mitigate the problems resulting from the poor performance of the mineral sector in terms of government budget and balance of payments. With regard to the budget, the Government announced an austerity programme with, for example, a freeze on public sector wages. The Government also intends to establish a range of taxes that will ensure that the relevant sectors of the economy pay their appropriate share. To mitigate the balance-of-payments difficulties, the Government devalued the pula by 10 per cent in 1982 and raised the interest rates so as inter alia to encourage foreign companies to borrow from abroad.

91 The problems of the agricultural sector in Botswana have included drought and the foot-and-mouth disease. Fortunately, Botswana has managed to overcome the foot-and-mouth disease with the vaccine which is being produced in the country. Further, two new abattoirs under construction are expected to increase total export slaughter capacity by about 47 per cent from 225,000 to 330,000 head per year. However, unpredictable rains continue to affect crop production, compelling Botswana to import food to satisfy the domestic requirements.

BURUNDI

1. Economic trends, 1981-1982

(a) Overall growth trends

92. Burundi is one of the least developed land-locked countries in Africa, covering a surface area of 27,834 km^2 and is separated by 1,400 km from the nearest seaport. Its population is estimated at 4.5 millic inhabitants in 1980, giving a density of 162/km^2, one of the highest in Africa. The overall GDP reached a level of FBu 30.8 billion in 1981 at constant 1970 prices, i.e, a growth rate of 8.4 per cent over the 1980 figure. Per capita terms was $US 76.1.

93. The main stimulant for such growth came from the agricultural sector whose value added expanded by 16.1 per cent in real terms and represented about 63.7 per cent of GDP in 1981. The industrial sector, which accounted for 14.1 per cent of GDP, grew poorly in 1981-1982 (1 per cent) as compared to 1980 (13.6 per cent), mainly as a result of a drastic fall in construction value added and in other industries comprising wood, paper, chemicals, construction materials, etc. The services sector, which represented about 22.2 per cent of GDP, recorded a moderate growth rate of 5.8 per cent in 1981 in real terms.

94. Paradoxically, total investment decreased by 2.5 per cent in real term to FBu 324.6 million in 1981 and its share in GDP fell to 10.5 per cent compared with 11.7 per cent in 1980. Further, total consumption represented about 90.2 per cent of GDP in real terms, which is an improvement compared with the past (97.1 per cent). The imports of goods and services also decreased by 1.7 per cent to FBu 4,445 million as a result of a decline in investment, whereas the exports of goods and services increased from FBu 2,015 million in 1980 to FBu 3,551 million in 1981 implying a growths rate of 76.3 per cent.

(b) Sectoral trends

95. The period 1980-1981 registered a net improvement in climatic conditions in the agricultural sector compared with the preceding year, as the regular rainfall throughout the year resulted in favourable harvests. Food production, which is composed of manioc, sweet potatoes, beans, peas, maize, sorghum, groundnuts, etc., increased by 38.4 per cent to 11,607,800 tons in 1981. These data do not include production of bananas in the country. This favourable food production level allowed the country to reduce its cereals and bananas imports by about 5.2 per cent. The production of rice increased from 4,715 tons in 1980 to 5,243 tons in 1981, part of which was used for local consumption and part for export. The production of coffee, the main cash and export crop, which worsened in 1980-1981, increased tremendously in 1981-1982 and reached 42,758 tons, compared with 18,628 tons in 1980-1981 and 27,726 tons in 1979-1980. Cottonseed production progressed by 18.5 per cent to 6,650 tons in 1981 and cotton textile production grew from 2,015 tons in 1980 to 2,741 tons in 1981, whereas the production of tea, which declined by 10 per cent to 1,454.8 tons in 1980, picked up tremendously to 2,229 tons in 1981.

96. Various industrial subsectors recorded favourable performance during 1980-1981. In the mining sector, production nevertheless stopped this year, but the geologic research was intensified throughout the country in accordance with the objectives of the five-year plan, 1978-1981. The results of the researches shows good prospects for mining, in particular with regard to nickel, limestone, gold and combustible peat. With regard to the manufacturing sector, in all, production was favourable in value and volume terms. However, some industries like ciment and clothing stagnated or declined as a result of a low purchasing power of the consumers contingent on the low performance of coffee. The construction industry prospered very well as the Government aimed at providing low-cost housing in Bujumbura and constructing 300 lodges for executive personnel and 10 villas for the visiting Head of States; building authorisations to the private sector increased from 118 in 1979 to 225 in 1980. In the field of energy infrastructure, dams are being built on the Mugere and Ruoyirensa rivers to produce hydroelectricity. Total consumption of electricity increased from 44,725 thousand kWh in 1980 to 48,801 thousand kWh in 1981.

(c) Financial developments and prices

97. In 1981, the ordinary budgetary expenditure amounted to FBu 10.918.3 million which represent an increase of 10.2 per cent over the last year. To a large extent this increase was the result of built-up pressures to increase public sector's wages and salaries and to purchase more goods and services. However, budgetary revenues decreased from FBu 9,947.5 million in 1980 to FBu 9,455 million in 1981 (by 5 per cent) as a result of a huge fall in external trade tax revenues, so that the 1981 budget resulted in a deficit of FBu 1,463.3 million, which is high compared to the previous budgetary results. The deficit was financed by both external and domestic borrowings.

98. Total government indebtedness increased sevenfold between 1975 and 1981, from FBu 2,029.2 million to FBu 23,480.1 million ($260 million). This was dictated by the need to finance the operations of the third five year development plan, 1978-1981. Domestic credit to the public sector also doubled in 1981 from the 1980 level (FBu 6,426.6 million against FBu 3,734.6 million), mainly as the result of the increase in special advances for financing development projects. Domestic credit to the private sector also increased by 47.7 per cent, and was used to finance the exports of coffee. Relatedly, money supply followed the trends in the credit creation and increased by 24.4 per cent to FBu 13,215.4 million in 1981. However, the cost of living remained as high as before, mainly because of external factors. In fact, in 1979, the country recorded ruptures of stocks owing to the transit difficulties. This phenomenon was reversed in 1980 and 1981 and prices stabilized; but in 1981 prices went up again. However, the appreciation of the United States dollars, and therefore, of the Burundi franc in relation to the currencies of Burundi's main suppliers helped to attenuate the rise in prices of imported products and therefore of domestic products.

(d) Developments in the external sector

99. Total external trade of Burundi with the rest of the world (imports plus exports) was characterised by a decrease of 0.1 per cent in value and a slight increase of 6.9 per cent in volume. Imports increased by only 1.6 per cent in volume and decreased by 4 per cent in value. Exports increased both in value (9.1 per cent) and volume (43.2 per cent). Despite such an increase, the trade balance showed a deficit of FBu 7,995.8 million in 1981 against a deficit of FBu 2,180.2 million in 1980.

100. In 1981 the overall balance of payments of Burundi recorded the highest deficit since 1976, amounting to FBu 2,855.1 million. The current account deficit which had amounted to FBu 12,236.3 million, was slightly reduced to FBu 6,922.4 million by current official and private transfers. This deficit was almost covered by capital movements (FBu 6,637.9 million); but the huge negative balance in the item "errors and omissions" of FBu 2,570.6 million for the first time since 1976 has worsened the overall balance of payments. This was probably due to the fact that the terms of trade, which had recorded a sensible improvement in 1976 and 1977, deteriorated in the subsequent years and worsened in 1981. In fact, coffee export prices fell to FBu 205.9 per kg in 1981 compared with FBu 303.2 per kg in 1981 and with FBu 303.2 per kg in 1980 and FBu 328.4 per kg in 1979. On the other hand, debt services increased from 3.9 per cent of export earnings in 1979 to 7.7 per cent in 1980 and 7.8 per cent in 1981.

2. Major problems and policies

101. The development of the Burundi's economy is constrained by several factors, namely the existence of a very high population density and its geographical isolation from the rest of the world. Indeed, the population density is one of the highest in Africa. To feed this population, Burundi had to expand the area under cultivation in this tiny country. In addition, Burundi is 1400 km from Dar-es-Salaam seaport and 2,000 km from Matadi (Zaire) seaport. This affects exports and imports badly. The country itself is subdivided into micro-regions isolated from one another making trade extremely difficult. Other major factors which inhibit the harmonious economic development of Burundi are the weakness of the rural sector as a consequence of soil degradation, deforestation, transhumance and overgrazing; the narrowness of local markets (disposable money income being only about 126 dollars per capita per year); the lack of energy, although the hydroelectric potential is great; and the weakness of domestic financing capability which forces Burundi to resort to external aid and borrowing.

102. This year, the main government policy in rural development dealt with the modernization of agriculture through mechanization and widespread use of fertilizers. In addition, the Government has launched a new programme of "villagization"; that is, a regrouping of the isolated rural population into

250 to 500 family agglomerations and providing the needs (school, hospital centres, water, etc). But the population has not yet reacted favourably to this new programme, given that the subsistance economy still predominates among rural population which continue to resist to the idea of leaving traditional lands. The Government has just created the "Societe de stockage et de commercialisation des produits vivriers" (SOSUCOM) which will purchase stock and market foodproducts throughout the country and has launched a new agricultural programme aiming at diversifying agricultural export crops by creating new ones and promoting a movement of farm co-operatives. Lately, regional development enterprises (societe regionale de developpement (SRD)) were created with the aim of co-ordinating agricultural research and studies as well as the activities pertaining to the integration of all the regions of the country. This new programme of integrated rural development is made possible by assistance from international agencies (World Bank, FED, USAID, etc.) and will multiply improved seeds and then popularize them in all the regions.

103. In the industrial sector, the Government has launched programmes for local processing of exports commodities, notably coffee and cotton and for expanding such plants as breweries, sawmills, metal goods factories and soaps, paints, shoes and vaxnish factories. To do so, the Government increased the funds in the investment budget to be allocated to industrial development, principally to State enterprises in food processing. To open up the country to the nearest seaport, the Government has launched a programme for building a railway which would be connected to the Tanzanian railway. But the export route via (Kigoma and Dar-es-Salaam) can cope with no more than one quarter of the Burundi s export capacity. That is why the Government has lately directed attention towards improving and utilizing the route passing through Rwanda, Uganda and Kenya (1,800 km) to ensure the supply of hydrocarbons.

CAPE VERDE

Economic trends, 1981-1982

(a) Overall growth and sectoral trends

104. Cape Verde has suffered, since 1968, from an uninterrupted drought which dramatically hampered agricultural growth and resulted in huge food deficits. In 1981, the food deficit was estimated to be 48,300 tons (for maize, beans, rice and wheat), which was equivalent to about 85 per cent of needs. The main characteristic of the Cape Verdian economy is a huge inflow of foreign aid which allowed GDP to grow in 1979 by about 18.5 per cent in nominal terms or about 8 per cent in real terms. In 1980, real GDP growth was about 6.9 per cent which is as remarkable as the 1979 performance. Although national accounts statistics were not available for 1981, it is likely that GDP growth rate was dramatically reduced since almost the entire 1981 harvest of millet and beans was lost.

105. Agriculture accounts for about 20 per cent of GDP and occupies 38 per cent of the total labour force. Because of persistent drought, its performance has been consistently poor. In 1980 the per capita value added in agriculture was only $68 which is one of the lowest among African least developed countries.

106. The manufacturing sector which accounts for about 6 per cent of GDP and employs 7 per cent of the total labour force grew by 0.5 per cent and 5.9 per cent in 1979 and 1980 respectively. The relatively good performance in 1980 was mainly due to the growing fish processing industries. It is likely that the manufacturing sector will continue to grow steadily in 1981 as a new cold store with a capacity of 4,000 tons a year has been opened, which would increase manufacturing output substantially. The services sector, accounting for about 51 per cent of GDP with 42 per cent of the total labour force, has been the leading sector on which depended the over-all growth of the economy in 1979 and 1980.

107. Real investment in 1980 represented a significant proportion of GDP (about 26 per cent) and its growth has been substantial since 1978 with annual rates of increase of 15.8 per cent and 20.1 per cent in 1979 and 1980 respectively. As indicated earlier, most of the foreign aid goes directly or indirectly into development projects. More specifically, the sale of food aid provided substantial resources which were invested in public works mainly anti-drought projects (building of small dams and dykes, prospecting for underground water sources, etc.). In 1981, about 26 per cent of the national investment programme was devoted to transport and communications, 19 per cent to industry (mainly fish processing and mining of pozzolana) and about 17 per cent to anti-drought projects. Public investment accounted for 75 per cent of total investment in 1980. The high average propensity to consume in Cape Verde is due on the one hand to the low level of GDP and on the other hand to the substnatial amount the country receives from external sources including the remittances of the 350,000 Cape Verdians living abroad. In 1980, total consumption represented about 131 per cent of total GDP.

(b) Financial and monetary developments

108. Since independence in 1975, government finance in Cape Verde has experienced a chronic current deficit amounting to 78.7 million escudos in 1979 or about 3 per cent of GDP. The objective of the Government in 1980 was to reduce current expenditures through a strict control on the recruitment of civil servants as well as on wages. Hence, there was a surplus of about Esc C.V 5 million in 1980, a situation which the Government is planning to maintain throughout the 1981-1985 development plan. However, development expenditure has increased more than threefold from 1975 to 1979, reaching Esc C.V. 1,120.5 million in 1979 or nearly 50 per cent of gross domestic product. Therefore the total budgetary deficit amounted to Esc C.V. 1,150.2 million in 1979 which represented 52 per cent of GDP and was entirely financed by external sources mainly in the form of subsidies Esc C.V 1,362.4 million in 1979). The monetary policy of the Government has been prudent and modest in recent years with money supply increasing on the average by 15.7 per cent yearly from 1977 to 1979. The inflation rate was only 10 per cent in 1979 but increased sharply in 1980 (about 16 per cent). To compensate for the 1980 relatively high inflation rate, the salaries of government employees were increased by 15 per cent in 1981. In other respects domestic credit has expanded substantially in 1978 and 1979, to promote productive investments, amounting in 1979 to Esc C.V. 1,249.6 million or more than four times the 1976 level.

(c) Development in the external sector

109. The main exports commodities of Cape Verde are fish products, bananas and salt. In 1979, fish products accounted for 70 per cent of total exports. In spite of the steady increase of exports of fish products, the level of exports remains particularly low especially compared with imports levels. In 1980, exports and imports represented 2.8 per cent and 55 per cent of GDP respectively and the trade deficit consequently represented 52.2 per cent of GDP, which is one of the highest among African LDCs.

110. The latest available information on the import structure of Cape Verde shows that food imports account for 41 per cent and manufactured consumer goods for 26 per cent. As for the direction of trade, about 61 per cent of Cape Verde's exports are directed towards developed market economies while 82 per cent of its imports are from that group of countries. Trade with other African countries is extremely low below 2 per cent.

111. Although Cape Verde has benefited since independence from substantial private transfers from abroad, the current account balance has consistently been negative amounting to Esc C.V. 1,404.9 million in 1979. The deficit has been largely compensated by a huge inflow of capital mainly in the form of grants. In 1979, the capital inflow amounted to Esc C.V 1,421.3 million which resulted in an increase in foreign reserves. In 1980, total concessional assistance from DAC and OPEC countries (net disbursements) was estimated to about $62.4 million while there was no non-concessional assistance including private flows from DAC member countries. Hence, the indebtedness of Cape Verde is particularly low and the policy of the Government in that respect has been very realistic and prudent. The outstanding debts amount to only $76 million.

2. Major problems and policies

112. The major problems of Cape Verde remain the difficult climatic conditions, particularly drought and soil erosion, its limited financial resources resulting in large budgetary and trade deficits, the lack of natural resources and skilled manpower, the weak productive capacity of the economy, particularly agriculture and manufacturing, and the narrowness of the domestic market. As indicated earlier, the international community, including exiled Cape Verdians, has been providing substantial assistance which has enabled the Government to overcome some critical financial constraints.

113. In other respect, the Government has launched long-term policies which would hopefully lay the foundation for a healthier economic situation. With regard to the climatic conditions, the policy of the Government for the last four years has been to overcome drought by building small dams and dykes and by prospecting for underground water. Also, the policy of the Government with respect to food aid consisted of selling food to the population, except to children and other special groups, with a view to constituting a development fund for public works projects. Other short-term management policies, such as strict control on government current expenditure to minimize the current deficit, were also adopted by the Government.

114. The 1982-1985 development plan calls for a total investment of $406 million (1981 prices) in priority areas such as irrigation, fishing, processing of fish products, tourism and maritime transport. To implement the investment programme, the public sector will remain predominant although the private sector will be given an increasing role through popular co-operatives. The growth target of the plan is a 7.8 per cent annual increase in GDP. In June 1982, Cape Verde has organized a Round Table of donors to help to finance the 1982-1985 development plan. Actually, a large proportion of the financial requirements of the plan has already been obtained from bilateral and multilateral donors and only $86 million was still to be found. Consequently the commitments made at the Round Table were well above the remaining amount. The crucial problem for the Government remains the need to benefit from non-project aid (e.g. food aid, balance-of-payments support) and to receive assistance in financing local and recurrent costs of development projects. With that it would be possible for the Government to implement the 1982-1985 development plan successfully.

THE CENTRAL AFRICAN REPUBLIC

1. Economic trends, 1981-1982

(a) Overall growth tends

115. The Central African Republic covers an area of 622,984 km^2, is endowed with meagre natural resources and is 1,800 km from the nearest seaport. Its population was estimated at 2.3 million inhabitants in 1980, giving a density of only 3.8 km^2. During the period 1978-1981, the economy recorded a negative growth rate in almost all sectors. The constant 1977 price estimates show that GDP in 1981 decelerated by -1.3 per cent to CFAF 127.7 billion compared with -2.9 per cent in 1980 and -3.6 per cent in 1979. This was due to the fact that agriculture declined by -3.3 per cent in 1981, mining fell by -22.9 per cent and construction by -2.8 per cent. Manufacturing grew only by 0.7 per cent trade by 0.5 per cent and services by 4.7 per cent. Since agriculture contributed about 35.1 per cent of GDP in 1981 and, together with the mining sector about 45 per cent, this explains why GDP fell in 1981.

116. Official figure for expenditure on GDP are not available. ECA estimates show that public consumption fell by 1.2 per cent yearly during the 1977-1980 period whereas private consumption increased by 0.7 per cent per annum in real terms. Total consumption represented about 94.3 per cent of GDP. Gross fixed capital formation which accounted for 5.6 per cent of GDP, increased by 2.7 per cent yearly in the years 1975-1980. Thus the domestic savings rate of 5.7 per cent could not ensure full financing of investment. Imports increased by 0.8 per cent per annum during 1975-1980 while exports declined by 0.1 per cent.

(b) Sectoral trends

117. The climate and soil of the Central African Republic are favourable to the development of agriculture, but of 62 million hectare surface area, only one million ha has been cultivated, seven to 10 million ha are used for livestock and 3.5 million ha are covered by vast tracts of forests. Nevertheless, agriculture remains the main activity of the country on which 80 per cent of population depends and accounts for 35 per cent of GDP and 40 to 60 per cent of the country's exports. Food production did not follow population growth. The two basic foods for the local population - cassava and millet/sorghum - increased by about 1.5 per cent in 1981 compared with a 2.6 per cent population growth rates. The main cash crops are: cotton, coffee and tobacco and they performed rather badly in 1981. The production of cottonseed which reached 58,700 tons in 1970 declined to 27,764 tons in 1980, 22,500 tons in 1981 and 17,500 tons in 1982. Tobacco production which was 3,750 tons in 1978 declined to 1,189 tons in 1980 and 1,200 tons in 1981, partly as a result of a massive shift on the part of producers away from tobacco production to subsistence farming and partly as a result of the smaller acreage planted.

118. Diamond production increased by 9.9 per cent to 341,700 carats in 1980, but export earnings from diamonds fell by 30 per cent as result of 25 per cent drop in unit prices. The manufacturing sector is very small and is concentrated mostly in car assembly and spare parts, furniture, soap, corrugated iron, food and drink and textiles. After several years of nationalization, the Govrnment decided to hand over the management of several manufacturing enterprises to the private sector. Electricity production, which was 80.7 million kWh in 1979, is generated at the Boali Falls hydroelectric power station and consumed in Bangui. Other stations at Carnot and Botanqui were opened in 1975, bringing capacity to 44 MW. A joint project with Zaire to dam the Oubangui river for hydroelectric power was mooted in 1981.

(c) Financial development and prices

119. The 1981 budget was originally set at CFAF 36.2 billion of expenditure and CFAF 27.1 billion in revenue, compared with CFAF 30.8 billion and 20.6 billion in 1980 respectively. But later, it was reduced to CFAF 34.1 billion. Budgetary revenues were increased to balance the CFAF 29,935 million for recurrent expenditure and CFAF 4,150 million for development expenditure. This was possible thanks to external budgetary aid from France and IMF. In 1980, France provide aid worth CFAF 26 billion and an SDR 20 million IMF standby credit was agreed upon in 1981. At the end of 1981, the external public debt outstanding was $US 162 million and the service payments amounted to 27 per cent of exports. However, the Government has not been using much domestic credit to finance the Budgetary deficits, but has instead relied on the external aid, namely French support, to fill the budgetary and balance-of-payments gaps. Domestic credit to the Government and to the private sector expanded less than the money supply (15.8 per cent as against 22.2 per cent). The recent recovery in the economy may explain the 22.3 per cent increase in the total money supply. The wholesale price index increased by 15.9 per cent in 1981 compared with 13.9 per cent in 1980. This progression was mainly due to a high growth rate in the prices of foodstuffs and of combustibles and energy (fuel).

(d) Development in the external sector

120. Total trade increased temendously in 1981 to CFAF 50 billion compared with CFAF 41 billion in 1980. Exports jumped from CFAF 24 billion to CFAF 31 billion while imports increased from CFAF 17 billion to CFAF 19 billion during the same period; that is, a 29.2 per cent increase in exports and 11.8 per cent increase in imports. Thus trade balance recorded a surplus of CFAF 12 billion in 1981 against 7 billion in 1980. Coffee, wood and diamonds were the main export items making up 88.8 per cent of total exports, while foodstuffs, chemicals, construction materials and transport materials and equipment were the main imported products. Although the current accounts recorded deficits as a consequence of the traditonal negative balance on services, these deficits were compensated by transfers and capital movements. Thanks to external aid and borrowings, the overall balance of payments ended up with a slight surplus of CFAF 2.4 billion in 1981 against 1.8 billion in 1980 and 3.8 billion in 1979.

2. Major problems and policies

121. One tenth of the country, 62,200 km^2, is covered by vast tracts of forest and savannah which, although constituting a potentially valuable resource of timber and game, are also barriers to the development of organized agriculture. Another constraint to agricultural development is the inadequate evaluation facilities within the country and reliable export routes which deteriorated over the past five years of political instability. In effect, timber and other cash export crops are shipped down the Oubangui and Congo rivers to the Congo-Ocean railway to Pointe-Noire. Since 1978 transit facilities have been suspended and timber exports had to take the overland route through the United Republic of Cameroon to the port of Douala. However, the Lome Convention Stabex scheme compensated loss of export earnings for both coffee and timber in 1976, and in 1979 for cotton resulting from transport problems. Other problems are the irregular supply of inputs (fertilizer), marketing difficulties, the insufficiency or the absence of agricultural bank loans, the lack of project co-ordination, the lack of remunerative producer prices to stimulate production and the energy problems. In fact, the food shortage persists only in the urban centres because of transport problems in evacuating food surpluses from rural areas. The manufacturing sector operates at 50 per cent below installed capacities, mainly because of weak management, small market demand for manufactured products, high transportation costs for raw materials and inputs and shortage of energy (motor oil).

122. The World Bank and EEC have agreed to support a government project aimed at reviving cotton production which has been declining since 1970. The Government's main objective was to raise the output to 30,000 tons in 1981/82 season and to 76,000 tons by 1985, by increasing areas planted from 78,000 ha to 130,000 ha and by improving feeder roads, collection and extension services. In addition, in order to stimulate production of the main food and cash crops, the Government has decided to increase their producer prices gradually. The Government also decided to adopt, within the CFAF 40 billion rehabilitation programme for 1981-1982 for basic transport infrastructure and agricultural expansion, market-oriented pricing policies and to return most of the public sector's agricultural companies to the private sector or convert them into mixed capital ventures. Government actions to promote industrial development consist of consolidating the existing national enterprises through joint partnership with foreign and national private investors, providing a new investment code which gives advantages to national and foreign investment and reinforcing the institutional industrial structures, namely the Office for the Promotion of Small and Medium Scale Enterprises, and restructuring the Ministry of Industry so that it covers industrial studies, planning and co-ordination activities.

123. In June 1981, suppliers from Federal Republic of Germany, the United States, France, Italy and Switzerland met in Paris and, after assessing the country's needs at about CFAF 60 to 70 billion, in order to redress the catastrophic situation, agreed to reschedule the country's CFAF 62 billion public debt over a nine-year period with a grace period of four years so as to avoid a default on external debt. Thereafter, the Government announced the implementation of an economic austerity programme aimed at reviving the agricultural production, reducing public expenditure and restoring confidence in the Government. IMF and France have pledged substantial support for the budget in order to relaunch the economy.

CHAD

1. Economic trends, 1981-1982

(a) Overall growth trends

124. Chad, a huge land-locked State covering 1.3 million km^2 with an estimated population of 4.5 million, is one of the lowest income countries in the world. Although no reliable GDP figures have been produced for several years, estimates show that the overall economy grew by 3 per cent in 1981, the year during which there was relative peace in the country. However, strong negative growth rates were recorded in 1980 (-10 per cent) and 1979 (-20 per cent), owing to internal security problems and financial instability. The economy was, in fact, paralysed during this period on account of the central bank being closed and BEAC deposits being unobtainable. Because of this, the Libyan Government has taken on the role, formerly played by France, of paying civil service salaries in Libyan dinars. However, French funds continue to be chanelled to the southern cotton producing sector. The country's low level of income and limited capacity to mobilize savings have always made the economy heavily dependent on external aid.

125. The resources available for domestic use grew faster than GDP, reflecting the increasing import surplus of goods and non-factor services. While exports stagnated the use of external aid and stepped-up exploration for oil spurred the growth of imports, permitting some growth in both consumption and investment. Domestic savings declined from 4.6 per cent in 1979 to zero per cent in 1980 and fixed capital formation was increasingly dependent on external flows. In 1980, however, even this inflow could not totally offset the large disinvestment caused by the loss of one third of the livestock herd, so that overall investment was negative in 1980 (-8 per cent).

(b) Sectoral trends

126. Agriculture in the broad sense of crop, livestock and fish production represents over 50 per cent of GDP, provides a livehood for about 80 per cent of the population and accounts for nearly all exports. The key cash crop, cotton, output in the southern third of the country fell from 85,718 in 1980/81 to 62,000 tons in 1981/82. The main reason for the decline was the unavailability of seed in 1981. Planted area fell to 134,000 ha from 166,000 ha in 1980. Output of ginned cotton fell also by 20 per cent to 25,000 tons in 1981/82 compared with 50,100 tons in 1978/79. Other industrial crops produced in the south have suffered from the war and the breakdown in administration. Sugar production was put at 12,000 tons in 1981 instead of the planned 20,000 tons. Lack of fuel and spares are the main causes of such poor performance. The textile company, STT, is also running below capacity owing to cash flow problems, inadequate electric power and lack of spares. Quantitative information on food production in 1981 is also lacking, but cereal needs for the period 1981/81 are estimated to be in the order of 60,000 tons of food grains. In 1980, estimated production of basic food crops was 600,000 tons for millet-sorghum (a 3.5 per cent increase), 181,000 tons for cassava (a 6.5 per cent increase), 1,000 tons for maize (the same as the previous year). Rice and wheat production decreased by 25 per cent to 30,000 tons and by 3.2 per cent to 6,000 tons, respectively.

127. Chad's mineral potential is not fully known. With the exception of natron (soda), there is no commercial production of minerals at present. However, uranium has been discovered at Lere and there have been indications of deposits of limestone, gypsum, kaolin, tin and wolfram. Oil production was under way after seven years of expensive exploration by the Continental Oil Company with Shell, but the military conflict has halted operations. Wells in the Kanem region, north of Lake Chad, were briefly producing at a rate of 1,500 barrels a day. A $7 million refinery near Ndjamena is near completion. The Government expects to satisfy 80 per cent of the country's oil needs domestically and envisages becoming an exporter of crude oil by 1985. The manufacturing sector, which is mainly dependent on agricultural processing, is stagnant because the demand for many manufactured goods fell as a result of 1979-1980 conflicts when most foreign technical assistance was evacuated. Many productive industrial installations were damaged by mortar fire and looting. In general, the growth of the industrial sector is constrained by several factors: remoteness of export markets, small size and dispersion of the domestic market, transports costs and scarcity of raw materials. Moreover, electricity generation is now close to capacity. Access to the sea is a severe problem to Chad and internal transport is underdeveloped. The main export routes are by road to the Nigerian railhead of Maiduguri, and to the Trans-Cameroon railway head of Ngaoundere but most of aid for transport infrastructure is at present concentrated on maintaining the current network.

(c) Financial development and prices

128. Most foreign aid to Chad was frozen during 1980 because of the civil war, but the south received financial support via the Coton Tchad parastatal to maintain cotton purchases. Budget and development expenditures were set at CFAF 17 billion in 1979. The World Bank group provided $21.7 million in 1977 on IDA terms and, with the African Development Bank, is involved in rice, cotton, meat and wheat projects. In 1980, the Libyan Arab Jamahiriya provided most of the aid to the budget, namely pay civil service salaries. French economic aid in 1980 totalled $11 million which was allocated mainly for the rehabilitation of essential services in the capital and as development support in the relatively unaffected southern regions. In November 1981, a meeting in Paris was held to discuss aid co-ordination for the reconstruction of Chad, during which an economic rehabilitation operation costing between $200 and 300 million over three years was adopted to cover administration, transport infrastructure and agriculture. Furthermore, Chad was awarded a ECU 2.5 million stabex grant from the European Development Fund in 1981 for earnings losses on exports of cotton to EEC during 1980. Libyan dinars ceased then to be acceptable as a medium of exchange throughout Chad. Price increases were moderate, about 6 per cent in 1977 and 3 per cent in 1976.

(d) Development in the external sector

129. Chad's actual exports and imports are unknown since a substantial part of border trade escapes all government control, and a large portion of the goods imported or exported bypasses customs, entailing substantial loss of revenues. Although many goods are traded clandestinely, the largest clandestine export is cattle. Unrecorded imports, mainly from Nigeria and

the United Republic of Cameroon consist mostly of consumer goods, namely textiles. Recorded external trade has always been in deficit. In 1977, the deficit was CFAF 8 billion, with exports f.o.b amounting to CFAF 724 billion and imports c.i.f. 32 billion. However, because of heavy foreign capital inflows, the overall balance of payments recorded a surplus of CFAF 19.03 billion in 1977, which is estimated to have dropped to CFAF 5.1 billion in 1980. The main exports items are cotton (71.8 per cent), cocoa, livestock and leather (20 per cent) and natron (8.2 per cent) and imports are made up of foodstuffs (40 per cent) petroleum products (21.7 per cent) machinery (22.4 per cent) and transport equipment (15.3 per cent).

2. Major problems and policies

130. Chad's economy suffered most from the security problems and the resultant breakdown in administration. Lack of fuel and spares and inadequate electric power paralysed the functioning of many agro-industrial enterprises. Even the cotton output in the south was due to fall in the 1981/82 season because of the unavailability of seed in 1981 and the shortage of fertiliser supply as a result of disruptions brought about by the war.

131 The issue faced by the country, however, was not whether to shift from cotton to food and vice versa but how to improve productivity and increase the margin of security in food crops in order to provide deficit areas with part of their food requirements. This, in turn raised two problems the availability of technical packages that might usefully be extended to small farmers and that would entail dramatic improvements in productivity, and the desirability of aiming at producing a food surplus in the south cotton zone in order to withstand food shortages in the north since there is little scope for regular trade in food crops between the two zones, because of transportation costs. In fact, food aid in 1981 has been concentrated on Chadian refugees on the Cameroonian side of the Chari river, as relief organizations could no longer operate safely within the country.

132. The Government is unable to undertake an accelerated programme for the reconstruction in the country because of lack of resources to finance trained manpower, organization and equipment. With the forthcoming positive assistance from aid donors, the Government should develop as rapidly as possible its capacity to undertake a programme of reconstruction if such aid can be used to finance comprehensive project packages which provide for all operating costs and supervisory technical assistance required to ensure efficient use of any equipment financed. If the $200-250 million aid promised at the donors Conference in Geneva were realised and assuming normal weather conditions, there is scope for accelerating growth somewhat above the rate of population increase in the next five years even though no dramatic departure from past trends is likely. Since internal security problems seem to be cooling down, one of the most important economic objectives to be achieved by the Government is the maintenance and restoration of production and service infrastructure in close collaboration with foreign aid donors.

THE COMOROS

1. Economic trends, 1976-1982

(a) Overall growth and sectoral trends

135. The Federal Islamic Republic of the Comoros has experienced in 1980-1981 a fairly good performance with a growth of GDP in real terms of 5.5 per cent per annum. Actually the economy has been recovering fast since 1978 after the adoption of the new constitution and following a relative stagnation during the 1975-1978 period. The recovery was due mostly to the resumption of aid flows from France and Arab countries directed towards the rehabilitation of the economy, including the key administrative services. Agriculture, which accounts for about 41 per cent of GDP, grew in 1981 by about 4.6 per cent, a performance which is almost the same as the average growth rate for 1976-1978. However, such satisfactory performance was mainly due to export products, primarily cloves and vanilla, while the growth in food production (rice, maize, cassava, etc.,) was about 3.5 per cent in 1980-1981, which is below the population growth rate. The second largest sector of the economy of Comoros is trade, which accounted for about 25 per cent of GDP in 1981 with a growth of 6.4 per cent. The trade sector is mainly composed of import-export activities. Hence any change in the external sector (e.g. import control or export stagnation) has a substantial impact on the trade sector.

134. The industry sector (i.e. manufacturing, construction and energy production) is still relatively small as a percentage of GDP (about 14 per cent as a whole and only 4 per cent for manufacturing). However, its performance has been quite significant with a growth rate of about 6 per cent in 1981. The very small manufacturing sector is mainly constrained by the lack of skilled manpower and financial resources and the weakness of credit institutions.

135. The share of consumption in GDP has been declining since 1976 to reach about 87 per cent in 1981 when the average propensity to consume was 0.7. Such a relatively healthy trend was mainly due to the slow growth of private consumption at the moderate rate of 4.6 per cent in 1981, which is much lower than GDP growth but higher than the growth rate of food production. Hence, the Comoros had to maintain a high level of imports of consumer goods, particularly food. As for government consumption, the need to continue to strengthen public services and central government has led to a relatively high growth rate of 6.5 per cent, with however a declining trend since the average growth of the period 1976-1981 was about 7.1 per cent per annum. Consequently, the domestic saving rate of the Comoros rose substantially from 7.7 per cent in 1976 to 13.7 per cent in 1981

136. In 1981 total gross fixed investment also continued to grow relatively fast at a rate of about 6 per cent and the investment ratio was 24.6 per cent which is a fairly good performance for a least developed country. However, in spite of the dramatic increase in the saving rate, the domestic resource gap still remains relatively high (about 11 per cent of GDP). Hence most of the investment programme - mainly public - was financed from external sources, in the form of grants or soft loans.

(b) Financial and monetary developments

137. The main feature of government finance in the Comoros is a chronic and increasing budgetary deficit which represented 39 per cent of GDP in 1980 and over 40 per cent in 1981. The budget deficit of 1980 stems mainly from the sharp decrease in government revenue resulting from a drop in import and export taxes, since both imports and exports increased only marginally in 1980. With import and export taxes accounting for 96 per cent of indirect taxes and more that 80 per cent of government revenue and with direct taxes accounting for less than 6 per cent, the drop registered in 1980 in the external sector had a negative impact on government budget. In 1981, there was some recovery in the external sector and the government revenue increased by more than 22 per cent, while the expenditure registered a slower increase of 20 per cent.

138. Current expenditure accounts for a very large part of government expenditure (more than 90 per cent) and is mainly directed towards administrative and social services with less than 17 per cent for economic services. Investment expenditure was limited to the purchase of small equipment for housing, construction and administration and to financing local costs of development projects financed from external sources. As mentioned above, public investment is almost entirely financed by bilateral and multilateral donors mainly France, Arab countries, EEC and China. Investment in infrastructure (roads, ports and airports) accounted for more than 70 per cent of public investment in 1981.

139. The monetary situation in the Comoros is characterized by a continuous decrease in foreign assets from CFAF 1.979 billion in 1976 to only CFAF 1.21 billion in 1980, as well as by sharp increase in money supply and credit. Money supply, including quasi-money, rose by 17.5 per cent in 1980 but the latter registred a sharp increase of more than 2.5 times mainly because of more efficient mobilization of domestic saving. Such trends continued in 1981 and 1982.

140. The rise in domestic credit was very substantial in 1980 (about 80 per cent) to permit imports of essential commodities such as rice and meat. The increase in domestic credit was also due to a rise of claims on the government sector.

(c) Development in the external trade sector

141. The Comoros' exports comprise four comodities namely ylang-ylang, cloves, vanilla and copraie, which accounted for 99 per cent of exports earnings in 1981. Vanilla and cloves represented more than 87 per cent of exports of goods, while exports of ylang-ylang and copraie have registered a decline since 1976. The Comoros exports are mainly directed towards EEC countries (88 per cent), primarily France with 76 per cent of total exports in 1981.

142. The continuous rise in public investment in infrastructure since 1978, together with the moderate rate of growth of food production and the increase in petroleum prices, have led to a sharp increase in imports with imports of consumer goods representing more than 50 per cent of total imports in 1981. Hence, the trade deficit was consistently high with exports representing only

about 50 per cent of imports. Actually, the ratio of exports to imports fell to 31 per cent in 1980 but there was a relative recovery in 1981, following a rise in world demand for vanilla and copras.

143. The overall balance of payments position of the Comoros has been favourable on the average during the period 1976-1981 -because of an important capital flow with a large component of grants. Except in 1980 when the country experienced a huge trade deficit, the overall balance was positive, thus bringing about a substantial increase in foreign reserves. The current account balance has always registered a deficit in spite of the relative importance of net transfers (about CFAF 4 billion in 1981). Actually, the net transfers, although substantial, could not offset the negative balances of both non-factor and factor services as well as the trade deficit.

144. The outstanding debt of the Comoros, on 31 December 1981, was about CFAF 24 billion with more than 94 per cent of public debt. In general a large part of this amount was obtained from multilateral financial institutions as well as from bilateral sources at very low concessionality. Hence, the debt service ratio has been very low throughout the 1976-1981 period. However, given the small size of the government budget and the relatively important indebtedness of the Comoros, the burden of debt servicing on the budget should increase substantially in the future.

2. Major problems and policies

145. The Federal Islamic Republic of the Comoros has now overcome most of the political uncertainties of the mid-1970s. However, the dispute over the Comorian island of Mayotte, still under the French Administration, has not been resolved, which represent a serious constraint on the socio-economic progress of the country since Mayotte has some potential for agriculture, including food production, and also for services.

146. In other respects, the country is slowly building up its institutional infrastructure which was completely dismantled after the sudden departure of the French administration and the French private businesses. However, the administrative capability of the country is still weak especially with respect to economic activities such as management of public enterprises, monitoring and follow-up of development activities, plan formulation and evaluation. The institutional weakness is further compounded by the lack of skilled manpower especially in such sectors as agriculture, industry and public administration. Hence, the country cannot mobilize efficiently its domestic resources, mainly in the form of domestic saving.

147. In addition to the weakness of the productive sections, particularly agriculture, the economy of the Comoros is severely constrained by the low level of infrastructure, especially transport and communications, which makes it difficult to ensure better communications betweens the islands as well as with the outside world. Also, insufficient development of alternative sources of energy, reinforces the dependency of the country on imported petroleum products.

148. The Government of the Comoros has embarked on policies aiming at overcoming the present difficulties. [illegible] the programme designed for the Round Table of countries and organizations in 1983 has rightly pointed out the priority areas, namely economic infrastructure, food production and diversification of agriculture, energy, human resources development and export promotion and diversification. Policies were also designed to strengthen the public administration particularly with respect to its capability of mobilizing domestic resources more effectively.

ETHIOPIA

1. Economic trends, 1981-1982

(a) Overall growth and sectoral trends

149. During the period 1978/79-1980/81, GDP at constant factor cost grew at an average annual rate of 4.7 per cent as compared with 2.7 per cent per annum between 1969/1970 and 1974/1975. Actually the recent growth performance is a remarkable improvement compared with less than 1 per cent in the period 1975/76-1978/79 when the county was under internal and external political pressures.

150. Agriculture, which accounts for about 50 per cent of GDP and provides employment for 80 per cent of the population, contributed substantially to the overall good performance of the recent years. In addition to the positive effects brought about by the 1975 land reform which promoted individual and subsistence farming for all major crops, the Government has increased investment in agriculture and provided extension services and subsidies for the utilization of agricultural inputs. As a result, food production expanded substantially and reliance on food imports was reduced consequently. Besides supplying most domestic food requirements, especially cereals such as teff and maize, and pulses, the agricultural sector provides raw materials to other productive sectors and accounts for 90 per cent of the country's exports. Coffee, which is the main export crop, represented 66 per cent of total export during the period 1978/79-1980/81.

151. Although agriculture performed remarkably, the marketing process which is controlled mainly by the Agricultural Marketing Corporation (AMC), did not improve in spite of the establishment of each farmer's association and of each private trader to deliver a certain quantity of grain annually, at official prices. [illegible] handled a very low proportion of total domestic food output. In order to meet the consumption needs in the urban areas, the Government resorted to the rapid development of State farms which, [illegible] between 1978/79 and 1980/81. In addition, in 1979 the government also designed a project entitled Minimum Package Programme aimed at [illegible] improved seeds, agricultural inputs and extension services with a view to encouraging the production of marketable surpluses. The above measures brought about some improvement in the food situation but certain quantities of food have still to be imported by AMC and sold at subsidized prices.

152. Production of [illegible] coffee increased substantially in 1980/81 following measures taken by the Government to increase the capacities of washing facilities, to limit losses caused by coffee berry disease and to plant new disease-resistant trees. Such measures were aiming at increasing coffee exports. In addition, because of the continuous decline in world coffee prices since 1977/78, the Government has taken measures to support producer prices. Other export commodities such as pulses, hides and skins and sugar, are also being encouraged.

153. The manufacturing sector contributes about 7 per cent to gross domestic product and is largely based on processing of agricultural raw materials (e.g. cotton, meat, sugar, etc). Most of manufacturing output is destined to domestic consumption with, however, a small but growing part which is exported. As most of the industrial plants in the northern part of the country resumed production, manufacturing output registered a substantial increase during the period 1978/79-1980/81. The energy and mining sector accounts for only 1 per cent of GDP but the Government is planning to make use of the important hydroelectric power capacity of the country, which is underutilized (only 2 per cent). In that respect, a new hydroelectric power plant is expected by 1986. Also the Government is considering mining projects for copper and potash in addition to the present activities in gold mining. The transport sector has also performed remarkably in recent years with the extension of the all-weather road network.

154. On the expenditure side, gross fixed investment, as a percentage of GDP, grew from 7.5 per cent in 1977/1978 to 10.1 per cent 1980-1981. As indicated earlier agriculture benefited substantially from the investment increase together with the economic infrastructure and the manufacturing sector. Also, through restrictions on non-essential consumer goods, domestic savings increased from 1.9 per cent of GDP in 1977-1978 to 4 per cent in 1980-1981.

(b) Financial and monetary developments

155. In the area of government finance, the main features are an increase in current revenue and a slowdown in current expenditure. Also, capital expenditure was limited to available foreign and domestic financial resources. While current revenue as a percentage of GDP increased substantially from 16.4 per cent in 1977-1978 to about 20 per cent in 1980-1981, the ratio of current expenditure to GDP remained almost constant (18.6 and 18.9 in 1977-1978 and 1980-1981 respectively). The growth of development expenditure has also remained modest (4.6 per cent and 6 per cent of GDP in 1977-1978 and 1980-1981 respectively).

156. On the revenue side, in spite of lower receipts from foreign trade resulting from low export prices, the increase was substantial because of more efficient tax administration and increased transfer of profits from State enterprises to the central Government. On the expenditure side, measures taken in 1981 to limit wage increases and to remove or reduce some subsidies (e.g subsidies as petroleum products and fertilizers) contributed to a current budgetary surplus in 1980-1981 representing about 1 per cent of GDP. However, the overall budgetary deficit represented about 5 per cent of GDP in 1980-1981 against 8 per cent in 1977-1978. About 49 per cent of the 1980-1981 deficit was financed from foreign loans and grants and 51 per cent by domestic banks and other domestic sources.

157. In the area of money and credit, the policy pursued in 1980-1981 was consistent with the budgetary restraint. The growth of money supply was particularly low in 1980-1981 (1.9 per cent) compared with 1979-1980 (13.4 per cent). Also, domestic credit increased relatively slowly at an annual rate of 8.9 per cent in 1980-1981 compared with 25.3 per cent in 1979-1980. Consequently, the official consumer price index rose only by 1.9 per cent in 1980-1981, compared with an average annual rate of 9 per cent between 1978-1979 and 1980-1981. The 1980-1981 trend in money and credit is expected to have continued in 1981-1982.

(c) Development in the external sector

158. As indicated above, Ethiopia's export performance is heavily dependent on coffee which accounted for 66 per cent of total exports in 1980-1981. Hence, the continued decline in world prices of coffee led to a sharp reduction in exports receipts despite a significant growth in export volume of about 13 per cent per annum between 1977/78 and 1980/81. In addition, the sharp deterioration in terms of trade has severely limited the financial resources of the country. On the other hand there was a virtual stagnation in the volume of imports and, in spite of the increase in import costs of some basic commodities, total import payments were well below the estimated figure. The tight credit policies and emphasis put on reducing existing stocks of imported goods contributed to a great extent to the decline in imports.

159. As a consequence of the import control policy and despite the decrease in export receipts, the trade deficit was much smaller than estimated. The trade deficit as percentage of GDP rose from 5.6 per cent in 1977-1978 to only 6.1 per cent in 1980-1981. Consequently both the current account deficit and the overall balance of payments were maintained at manageable levels. In 1980-1981, the current account deficit was 5.7 per cent of GDP while the ratio of the overall balance-of-payments deficit to GDP was a mere 1.4 per cent. Hence the pressure on the net foreign reserves of the banking system was slightly reduced in 1980-1981. On average, the level of foreign reserves covered about one month of imports in 1980-1981. In 1981-1982, the increase in foreign assistance on more concessional terms and the continuation of the import control policy was expected to bring about a slight surplus on the overall balance of payments. This would increase the level of foreign reserves of the banking system to about two months of imports.

160. The outstanding debt of Ethiopia in 1982 was estimated to reach around 23 per cent of GDP and the related debt service ratios around 9 per cent of exports as against 6 per cent in 1977-1978. However, the increase in grants and foreign loans at more concessional terms is likely to maintain both the outstanding debt and the debt service ratios at moderate levels.

2. Major problems and policies

161. Although the Government has made tremendous efforts in various fields to reorganize the economy and to boost production, Ethiopia still suffers from limited resources (both domestic and external) which could be mobilized to accelerate economic development. In addition, the institutional transformation brought about by the 1974 revolution with the limitations in the ability of the private sector to generate savings, increased the role of government finance in financing both economic development and the creation of a new institutional framework. However, as it may be seen from the above brief analysis of the Ethiopian economy, the Government through basic economic and financial reforms, has increased its revenues tremendously and consequently its expenditures, both current and capital. Similarly, efforts to improve the management of public enterprises have led to a greater contribution of these enterprises to development financing through the central government budget.

162. In the social field, the Government has successfully removed most of the constraints inherited from the monarchy, namely illiteracy, inequitable distribution of land and economic benefits and regional disparities. However, although substantially reduced, some other major problems facing developing countries in general and least developed countries in particular are still present such as mass poverty, unemployment, etc. To overcome these constraints the Government's long-term policy is to increase output through a massive investment programme in basic sectors such as agriculture, manufacturing, energy and economic infrastructure. A ten-year investment programme which covers the period 1980/81-1989/90 involves large-scale investments in almost all key sectors of the economy. The principal targets are (i) doubling GDP in real terms by 1990; (ii) providing employment to about 5 million people; (iii) increasing agricultural production by 60 per cent; (iv) increasing industrial production four-fold; (v) increasing export earnings in real term by 2.6 times; (vi) providing basic health services to cover 65 per cent of the rural population or about 30 million people; (vii) eradicating illiteracy and providing polytechnic education from grades 1 to 8 to about 9 million children, and (viii) constructing 45,000 housing units.

163. Also the National Revolutionary Development Campaigns (Zemetcha) launched in 1979 and aiming at raising agricultural and industrial output, improving the distribution system and helping the poorer segments of the population have been very successful in initiating economic recovery. The four programmes undertaken in 1979, 1980, 1981 and 1982 contributed substantially to the above-mentioned rapid growth of real GDP and export volumes, through higher investment and saving ratios.

164. However along with the recovery, the deterioration in external terms of trade as a result of a fall in export prices and an increase in import prices have led to financial strains and imbalances. For this reason the Government has now embarked on stabilization policies aimed at co-ordinating demand management and development efforts. The main measures were already referred to in the section on budgetary and financial developments. Most of the stabilization policies were undertaken in collaboration with the International Monetary Fund and were directed to limiting subsidies, increasing revenues and restricting domestic credit. To support these measures a stand-by programme with IMF was designed for December 1980 to March 1981.

THE GAMBIA

1. Economic trends, 1981-1982

(a) Introduction

165. The stagnation of economic activity over the last decade is a clear manifestation of the country's inability to increase its export capacity and to lessen its overdependence on one major cash crop, groundnuts which accounts for 80 per cent of total GDP and 90 per cent of domestic exports. Both the fluctuation in world markets and the vagaries of nature culminating in a succession of droughts have profoundedly slowed the growth of the export sector and hence of most of the domestic economic activities. The situation was further compounded by the escalating oil import bill which is estimated at around 30 per cent of the total export earnings. The serious deterioration in the terms of trade has a serious impact on the balance of payments. The result was a modest growth in GDP during the period 1975-1981 in spite of the increases in the ratio of gross domestic investment to GDP from 11 per cent in 1975-1976 to 29 per cent in 1980-1981.

166. Economic activity, after experiencing severe set-backs for two consecutive years in 1979-1980 and 1980-1981, showed a recovery in 1981-1982 with exceptionally favourable agricultural production in that year. Groundnuts and cotton, for instance, almost doubled the 1980/81 figures. Consequently, GDP in 1981-1982 is estimated to record an appreciable increase of 10.9 per cent over 1980-1981 at 1980-1981 prices. This favourable situation was also due to the substantial increases in the level of foreign assistance in that year. Nevertheless, the reliance on borrowing on the banking system to offset increases in development expenditure and to meet extrabudgetary outlays occasioned by the need to restore normality after the political disturbances of 1981 has increased substantially. The balance of payment was also under continued pressure since low groundnut prices on the international markets eroded the value of the much improved groundnut exports and not all the groundnuts produced could be exported. On the expenditure side, the figures for 1980-1981 indicate an excess of consumption over total output leading to a wider resource gap of 33.7 per cent and a negative saving ratio of 3.6 per cent of total GDP. The bulk of investment expenditure was undertaken by the public sector and accounted for 25 per cent of total GDP.

( ) Sectoral performances

167. Figures on GDP by industrial origin were not available for 1981-1982. However, it is known that the structure of production has remained virtually unchanged with agriculture as the dominant sector of the economy. GDP in the agricultural sector is estimated to have increased by about 40 per cent due entirely to higher output of groundnuts, cotton and the cereals. Since groundnut processing is the largest component of large- and medium-scale manufacturing, the manufacturing sector is also estimated to have experienced an increase in real output in 1981-1982. In contrast, there were declines in real output in other important sectors of the economy, notably tourism and the wholesale and retail trade. The serious setback in the wholesale and retail sector was due mainly to the losses suffered by importers and wholesale traders during the political disturbances of 1981, and the subsequent

difficulties in replenishing stocks owing to acute shortages of capital and foreign exchange and the high cost of borrowing. The fall in the value added by the 'hotels and restaurant' sector is attributed mainly to the low tourist traffic for the year. That there was an overall increase in GDP in 1981-1982 in spite of these shortfalls and setbacks was due mainly to the more than compensating increase in agricultural output.

168. There was considerable recovery in groundnut production in 1981-1982. Output of groundnut is estimated at 109,000 tons in 1981-1982, compared with the 1980-1981 estimate of less than 60,000 tons. The rate of increase in 1981-1982 was thus about 81.7 per cent. Cotton production also improved in 1981-1982 compared with 1980-1981. The area under cultivation fell by 27 per cent from 3,500 hectares in 1980-1981 to 2,555 hectares in 1981-1982, but output rose by 24 per cent from 2,128 tons to 2,642 tons over the same period. The fall in the hectarage under cultivation was compensated for by an increase in yield per hectare estimated at 1,030 kg. An estimated 22,000 hectates of rainfed and swamp rice were planted in 1981-1982 throughout the country, compared with 21,000 hectares in 1980-1981. The total output of rice rose from 29,000 tons in 1980-1981 to 33,000 tons in 1981-1982, an icnrease of 13.8 per cent.

169. The livestock population in the Gambia, estimated at around 300,000 head, has continued to increase, as a result of the regular and well supervised mass vaccination and diseases control programmes in the field. In 1981-1982, the Livestock Marketing Board signed a second contract to supply breeding stock to Gabon while at the same time it maintained its export trade under a similar ongoing contract with the Nigerian Government. The result was an increase in the overall trading turnover of the Board to D2,611,217 in 1981-1982, representing an increase of 13 per cent over 1980-1981.

170. Very little progress was made in the manufacturing sector in 1981-1982. The sector remains relatively small and dominated still by groundnut milling and shelling, cotton ginning, hides and skin processing, etc., where most of the increases in activities in 1981/1982 seemed to have centred.

171. The first five-year development plan recognized the importance of processing domestic products and envisaged substantial private investment in manufacturing. To encourage private investment a very liberal system of incentives including exemption from custom duties, income tax holidays and tariff protection for local industries was recently adopted.

172. Thermal sources provide all the electricity generated. The energy development measures being considered by Government include encouraging exploration for alternative energy sources such as petroleum and peat and the use of renewable non-conventional energy sources such as agricultural wastes and biogas. In this connection, the second five-year plan includes a project for the carbonisation of groundnut shells to produce an efficient form of charcoal.

173. The tourist industry suffered a decline in 1971-1980, 1980-1981 and 1981-1982. The decline is mainly due to the political disturbances in the country in 1981 and the downward trend in international travel brought about by world-wide economic recession.

(c) Balance of payments

174. The total value of the Gambia's external trade was on the decline for two consecutive years, 1980 and 1981. Export values declined by 6.1 per cent from D54.86 million to D51.46 million in 1981, compared with the 32.5 per cent decline between 1979 and 1980, from D109.86 million to D54.86 million. For the first time in many years, there was a decline in the value of imports from D282.44 million in 1980 to D243.69 million in 1981, a fall of 13.6 per cent. Thus the external trade deficit is narrowed in 1981 from D227.58 million in 1980 to D192.23 million in 1981.

175. The reduction in imports in 1981 compared with 1980 was due mainly to lower values of imports of mineral fuels, manufactured goods and machinery and transport equipment. The lower value of Gambian exports in 1981 was due mainly to the low groundnut prices on the international market and the lower quantities actually exported. However, the bad performance of domestic exports has been partly offset by the rise in re-exports which accounts for about one fourth of total exports. The entrepot trade is expected to rise substantially in view of the low level of Gambian import duties.

176. Although the excess of imports of goods and services over exports was financed mainly by external aid and external financing of investment, reserves were also drawn down in 1981. Unlike in 1980 when reserves of D10.27 million were accumulated, reserves were drawn down by D10.37 million in 1981. With the continued pressure on the external payments position of the Gambia, external arrears remained at relatively high levels. The gross external reserves of the country amounted to no more than one month's imports in 1980-1981 as at the end of March 1982. To restore equilibrium in the balance of payments, the Government has concluded a one-year stand-by arrangement with IMF. Under this arrangement, balance of payments support of SDR 16.9 million (approximately D42 million) was approved by IMF in January 1982 of which SDR 8.12 million was drawn.

177. The Gambia relies heavily on external assistance for development. Following the political disturbances of July 1981, the country has also received external grants to finance the relief and rehabilitation work needed. External aid, as reflected in the balance-of-payments data (net government transfer) was D25.36 million in 1981 compared with D40.76 million in 1980.

178. Debt service charges are estimated to have risen from D4.1 million in 1980-1981 to D9.9 million 1981-1982, compared with the figure of D4.6 million in 1979-1980. This imposes a severe burden on both the budgetary and foreign exchange resources of the country. The debt service charges are projected to rise further in 1982-1983, to D22.5 million when the accumulated arrears of previous years would have to be paid.

(c) Fiscal development

179. In 1981-1982, current receipts increased by 65.7 per cent, thanks to the cash grants amounting to D43.5 million or almost one third of the total revenues received from various countries to assist the Government in financing its relief and rehabilitation efforts following the political disturbances of 1981. Without the grants, recurrent revenue would have been only D7 million, only 11 per cent higher than the actual level for 1980-1981 and 7 per cent short of the budget estimate for 1981-1982. Concurrently, current expenditure expanded by about 17 per cent in 1981-1982 compared with 1980-1981 and was in excess of the budget estimate by 12 per cent.

180. With a recurrent budget surplus of only D7.3 million and development receipts of D21.7 million, the overall balance deteriorated to a deficit of D5.7 million since development expenditure increased by 29.2 per cent to D90.8 million. The overall budget deficit would have been higher in 1981-1982 but for the significant improvement in recurrent budget balance compared with 1980-1981 and continued capital receipts mainly in the form of external aid and assistance.

181. Estimates of recurrent revenue for 1982-1983 amount to D123.4, indicating a shortfall of 5.9 per cent in comparison with the estimated recurrent receipts for 1981-1982. However, more revenue is expected from import duties largely because of the role of Banjul as an entrepot from re-export trade to neighbouring countries. Recurrent expenditure is estimated to fall to D131.2 million or by 3.3 per cent, thus yielding a recurrent budget deficit of D7.8 million. Development outlays are expected at D90.7 million which, mainly from external grants and loans, are estimated at around D79.1 million.

(d) Monetary development

182. Money supply rose by 35. per cent between December 1980 and 1981, compared with the 6.1 per cent increase between 1979 and 1980 and its virtual stagnation between 1978 and 1979. Even for 1981-82, money supply was 25.2 per cent higher at the end of March 1982 than at the end of March 1981. The major factor underlying the strong growth in money supply was the significant recovery in agricultural production. Quasi-money increased modestly by 11.1 per cent from D29.4 million in 1980 to D32.69 million in 1981. This is indicative of a significant, even if modest, increase in the willingness to save on the part of the population.

183. There was a significant increase in Government recourse to the banking system in 1981. Government borrowing from the banking system stood at D34.60 million at the end of 1981 compared with D21.90 million at the end of 1980, an increase of 58.1 per cent. This compares unfavourably with the decline of 4% per cent in Government borrowing from the banking system between December 1979 and 1980. By contrast, public enterprises and statutory bodies had less recourse to bank credit in 1981 compared with 1980, with their borrowings at the end of 1981 rising only by 31.5 per cent compared with the increase of 130.9 per cent in 1980 over 1979. Private sector credit increased only marginally in 1981 by 6.3 per cent from D69.04 million at the end of 1980 to D73.31 million at the end of 1981.

184. Net foreign assets, after a remarkable increase in 1975, slowed down in subsequent years with negative balances in 1979 and 1980, which has seriously affected the liquidity position of the commercial banks. At present, the Government is paying due concern to monetary control and regulations to limit the lending ability of commercial banks to the private sector by raising their liquidity ratio from 5 per cent to 20 per cent.

2. Major problems and policies

185. The depressed international economic situation and the fall in the international price of groundnuts and other major products were the primary factors affecting the Gambian economy in 1981-1982. The fall in the f.o.b. price of the principal export crop, groundnuts, from 3616 per ton in 1980-1981 to 3664 in 1981-1982 was a source of reduction in the foreign exchange earnings that would have accrued from a relatively good crop in 1981-1982. The political disturbances of July 1981 also disrupted economic activity on a large scale within Banjul, causing a serious setback to the wholesale trade from which the country has not fully recovered yet. Moreover, the depressed international economic situation had a negative impact on the tourist industry.

186. For two consecutive years, the total value of the Gambia's external trade has been on the decline with unfavourable movements in the terms of trade. The situation is further depressed by a very rapid growth of imports of petroleum products and depletion of forest cover. Imports of petroleum products strip of more than 33 per cent of total export earnings.

187. Some of the policy measures and changes involved in the conclusion of the extended fund facility and the one year stand-by agreement with IMF were already introduced in the 1981/1982 budget such as increases in import duties on petroleum products and a range of commodities. The other measures included in the economic stabilisation programme accompanying the agreement on the stand-by credit taken in January 1982 aimed at dampening demand and inflationary pressures while increasing savings for investment. The latter included quantitative credit guidelines involving controls over bank credit to both the public and private sectors, increases in deposit and lending rates at all financial institutions, reductions in the growth of recurrent expenditure and in subsidies e.g. on sales of fertilizers and rice.

188. A large proportion of the development expenditure in 1981-1982 was devoted to the completion of ongoing projects in the areas of physical and social infrastructure with a view to alleviating shortages such as those of electricity and housing. 1982-1983 is expected to see the beginning of the implementation of some of the projects scheduled to have been started in 1981-1982 under the second five-year plan.

189. With the significant recovery in agricultural production in 1980-1981, some deceleration in domestic credit creation and a modest increase in quasi-money (savings and time deposits), which is an important source of investment funds for both public and private investments, there are indications that the economy is set on a discernible path to recovery from the three successive years of recession. A lot would depend however on future movements in the international price for groundnuts and the domestic production levels for this particular crop and other agricultural products. The international economic outlook is not expected to be significantly more favourable for the Gambia in 1982-1983 than in 1981-1982. On the negative side, the Gambia woul continue to face acute balance-of-payments problems and insufficiency of government revenues. Even the successful implementation of the second-five year plan on which prospects for the immediate future depend is by no means assured. The level of development expenditure envisaged by the development estimates for 1982-1983 is much lower than the level of expenditure in 1981-1982 and this could be detrimental to growth.

GUINEA

1. Economic trends, 1981-1982

(a) General

190. In 1981, the economy of Guinea remained virtually stagnant, recording a growth rate below 1 per cent. Developments confirmed the role of the mining sector as the engine of growth. Indeed, the poor performance was due to the fact that bauxite production reached its ceiling. The downward trend of agriculture in the total value added, which began in 1976, continued. From 66 per cent in 1970 it dropped to 56 per cent in 1975 then to 46 per cent in 1980 and 45 per cent in 1981. Manufacturing industries, accounting for 3 per cent of GDP, remained embryonic while the mining sector, accounting for 16 per cent of GDP, and trade accounting for 15 per cent, continued to constitute an increasingly greater share as a result of the commissioning of new mining projects and trade liberalization in certain agricultural commodities. On the demand side, consumption accounted for 84 per cent of GDP while the 16 per cent investment rate remained at its 1980 level.

(b) Sectoral trends

191. The rural sector which provides jobs for more than 80 per cent of the population, is still largely based on subsistence production despite the varied and clement climate. The measures undertaken in 1979 to liberalize marketing seem to have eased that constraint somewhat.

192. The industrial sector is still embryonic. It is almost exclusively State-owned and geared to satisfying domestic demand. It produces textiles, building materials, food and bauxite. The decision taken to process raw materials locally (bauxite, alumina and aluminium complexes) indicate that the percentage of GDP accounted for by the sector will increase rapidly.

193. The mining sector which accounted for 1.2 per cent of GDP in 1970 and rose to 16 per cent, remains the major basis of Guinea's economic development. Bauxite, of which Guinea possesses 30 per cent of the world's reserves or 12 billion tons, is the major production activity followed by iron ore (reserves of 15 billion tons) and diamonds. Prospection carried out indicates important traces of uranium and off-shore oil. These are going to be exploited by consortiums with open and varied capital in which the State holds 51 per cent of the shares. Each project includes a major auxiliary infrastructure component made up of roads, railways, ports and the like.

(c) Fiscal and monetary policies

194. The public financing system of Guinea is decentralized at three levels:

(a) The central Government;

(b) The regional governments;

(c) Public enterprises.

The consolidated statement of the public sector indicates a decline in spending of about 1[illegible].7 per cent per annum on average from 1976 to 1981 resulting in particular from the reduction in unfunded capital expenditure over the same period. Revenue remained virtually stagnant until 1979 increasing at a rate of 0.7 per cent per annum. The slight improvement in the budgetary situation following that period was accompanied by a sharp reduction in foreign borrowing from 1.8 billion sylis in 1976 to 10 million.

105. The country's monetary situation shows a wide imbalance between money supply and the supply of goods and services which has created severe inflationary pressures that the Government is trying to contain through such demonetization measures as:

(a) Changing bank notes in circulation;

(b) Reducing the money supply;

(c) Credit limitation and selection;

(d) Interest rate policy;

(e) Foreign exchange control policy.

The money supply fluctuated wildly from -4 per cent in 1976 as compared to 1975 to -36.5 per cent in 1977 to +6.7 per cent in 1978 and +70 per cent in 1979 and 1980.

(d) External trade - balance of payments - foreign assistance

106. Exports were dominated by bauxite which accounted for 70 per cent of the total and alumina which accounted for 26 per cent while agricultural products, on account of the poor performance of the rural sector, accounted for 2 per cent only. Since bauxite production has reached its peak no increase in export earnings is expected before 1985 when new mines will go into operation. The situation, combined with ever expanding imports in particular food products to offset the food deficit, capital goods to equip new factories and petroleum products, led to a deterioration of the trade balance in 1980 and 1981 as compared to the surpluses of 1977, 1978 and 1979. These deficits were easily covered with the assistance of various foreign sources of finance. However, Guinea is experiencing a level of excessive indebtedness with as much as 50 per cent of its exports going into debt servicing. Guinea should avoid contracting fresh short maturation loans or borrowing at commercial rates. As with general growth, correction of Guinea's balance of payments is closely linked to world demand for alumina. Unfortunately the prospects do not appear to be bright.

2. Major problems and policies

197. Following the difficulties in the early years of independence marked by the break with France and isolation from other French-speaking countries of West Africa (with the exception of Mali), Guinea resumed in 1975 an open policy towards the outside world which resulted in its signing the Lomé Convention and acceding to the treaties of the West African Economic Community (CEAO), the Organization for the Development of the Gambia River (OMUG) and the Mano River Union. The major economic policy measures focused on domestic monetary policy as mentioned above and on the definition of a new agricultural promotion strategy apart from State sector large-scale private farming. In view of the country's mineral wealth and agricultural potential, Guinea could become one of the richest countries in West Africa. The implementation of such major projects as (MIFERGUI, NIMBA and AYE KOYE together with the substantial revenue derived from diamonds indicate that growth could well reach a level of 5 per cent per annum from 1982 to 1985 and 10 per cent from 1986 to 1990.

GUINEA-BISSAU

1. Economic trends, 1981-1982

(a) General

198. After a long colonial presence which reduced the country to a mere trading post with no socio-economic infrastructures and a liberation war which, over 13 years mobilized the country's productive forces and space, Guinea-Bissau was faced, as were all countries located within the same latitudes with a cycle of droughts in 1977, 1979 and 1980 which hampered the national construction effort launched on accession to independence in 1974. Owing to the non-existence of up-to-date statistical data (statistical services are only just being established) it was difficult to conduct a quantitative analysis of economic development. However, it seemed that the primary sector, which provided 51 per cent of the total value added and employment for 80 per cent of the active population, remained stagnant from 1975 to 1980. The expansion of fishing by 49.5 per cent per annum and forestry compensated for the decline in agricultural production. The industrial sector, which accounted for 6 per cent of GDP, was operating at only 30 per cent capacity and increased its value added by a mere 6 per cent as compared to 14 per cent from 1975 to 1980 and 34 per cent from 1970 to 1975. Trade and other services experienced a growth rate of 3 per cent in 1981 whereas the value added of transport increased by 5.6 per cent. The resource deficit rose from 24.6 per cent to 39.8 per cent of GDP in the period 1970-1975 to 42 per cent in 1980 and 44.1 per cent in 1981 while the investment rate, at 22 per cent of GDP, remained at the same level as in the 1975-1980 period. It is estimated that in 1981 GDP will increase by 1 per cent at current factor costs as compared to 1980, reflecting a sharp recession in real terms.

(b) Sectoral trends

199. Agriculture accounted for approximately 94 per cent of the primary sector's value added. It experienced three types of difficulties:

(a) The cycle of droughts mentioned above;

(b) Inadequacy of existing communications channels which made it difficult to reach producing areas,

(c) The inefficiency of State consumer goods distribution circuits in redistributing regional surpluses which led farmers to produce just enough for their own consumption in certain cases and the Government to restructure the two existing marketing companies.

200. Rice and groundnuts are the two dominant crops. Rice is entirely consumed locally while groundnuts are exported. Both crops registered a production index decline of 44.5 and 7.5 per cent respectively in 1979 bringing the food deficit to 82,000 tons and a decline in exports of almost 20 per cent.

The good rainy season in 1981 combined with such food production incentives as seed distribution, improved evacuation systems and the launching of grain and cotton extension projects in the north-eastern part of the country indicate that agricultural production might well regain its previous levels and result in a major step towards food self-sufficiency in 1982.

201. Fishing, even though it accounts for only 2.2 per cent of GDP at current prices and 5 per cent of the primary sector's value added, remained the most dynamic sector with an annual potential of 300,000 tons and a production level of 7,400 tons. From 1975 to 1980 it accounted for 35 per cent of exports and on average increased at a rate of 50 per cent per annum. The Government is financing a co-operative development and mechanization scheme for fishermen who provide 66 per cent of local needs. Even though 65 per cent of the country's land area is covered by forest, forestry-accounted for only 4 per cent of GDP which is less than 8 per cent of its potential.

202. The industrial sector (still embryonic and accounting for 10 per cent of GDP) is operating at only 30 per cent capacity because of the lack of raw materials (production capacities far exceeding supply potential), spare parts, qualified manpower and sufficient domestic demand. Development in this sector, which reflected a 30 per cent decrease in 1981 (as compared to an annual increase of 14 per cent from 1970 to 1980), was impeded by the low investment level resulting from the low volume of credit granted to the private sector (less than 5 per cent of the total) composed mainly of small production units and a host of artisans. With the investment code that has just been instituted and the reformulation of the private sector's role in economic development and the restructuring of existing State enterprises, this sector might well expand further.

203. The transport and communications system is still as limited as it was in colonial times. The north is served by roads in need of repair. The rice-growing south has next · no infrastructures and the existing ports need to be rehabilitated. These constraints constitute a major bottleneck because of their adverse effect on other productive sectors. Those effects include difficulties in evacuating crops and lack of storage facilities, difficulties in supplying rural areas with consumer goods and difficulties in securing access to social services.

(c) Fiscal and monetary policy

204. The major characteristic of the fiscal system is the disparity between fiscal revenue and the level of State intervention in the public sector. Fiscal revenue accounted for only 13 per cent of GDP while public spending accounted for 52 per cent of GDP. Thus, not even current expenditure could be covered by local revenue and the regular budget deficit amounted in 1979 to 80 per cent of current revenue. The deficit, which was financed largely through loans granted by the Central Bank (over 80 per cent of all loans disbursed), explains why the money supply increased at the rate of 22 per cent on average per annum. The development budget is almost exclusively financed through foreign assistance.

(d) Balance of payments and foreign assistance

205. The current account deficit continued to grow from 1975 to 1980 because the private transfers situation worsened by more than 50 per cent as did net factor revenue. In 1980 the deficit was $17 million and seems attributable to disbursements for technical and military assistance. Foreign loans and public transfers which were able to cover the current account deficit from 1975 to 1978 also recorded a $7.3 million surplus in 1979. In 1980 that surplus had become a deficit because the strict import control policy which enabled the State to provide a 20 per cent value subsidy was compromised by the decline in export earnings and the volume of capital inflows. In late 1980, the external reserves were enough to cover two months of imports while the import/export cover rate varied from 16 to 39 per cent from 1970 to 1980. Over the same period exports, composed basically of groundnuts (70 per cent in 1975 and 20 per cent in 1980), oil-palm (1 per cent in 1975 and 18 per cent in 1980) and fishery products (35 per cent in 1980) increased at an annual rate of 14 per cent largely as a result of the increase in export prices. Imports of capital goods rose from 19 per cent in 1975 to 38 per cent in 1980 at the rate of 8 per cent per annum on average. Foreign assistance or assistance in kind turned out to be the only acceptable form and amounted to $16.2 million or 120 per cent of GDP while foreign debt servicing accounted for 73 and 80 per cent of export earnings in 1980 and 1981 respectively.

2. Major problems and policies

206. Economic policy measures are centered on five principles:

(a) Mobilization of all economic forces to increase participation in the national development effort;

(b) Expanding rural production by providing support to farmers in the form of raised producer prices, agricultural credit, improved consumer goods distribution circuits and storage facilities;

(c) Restructuring the modern industrial sector;

(d) Developing basic infrastructures such as roads and telecommunications;

(e) Developing human resources.

207. A stabilization programme was initiated in 1982 before the launching of the country's first economic and social development plan. However, the small land area of the country and its insufficiently exploited potential in forestry, fishing and such mineral resources as bauxite and phosphate will, together with ample foreign assistance become assets for the future expansion of Guinea-Bissau's economy.

LESOTHO

1. Economic trends, 1981-1982

(a) Introduction

208. Lesotho's economy is largely characterized its vulnerability to economic changes in South Africa. Such vulnerability is brought about by the traditional pattern of exchange with South Africa and the restricted direction of trade for both exports and imports. Besides being the sole customer for exports, South Africa gets about 90 per cent of the total import requirements of the country. Realizing the negative effects of such a situation, the Government of Lesotho is determined to lessen such dependence by opening its economy and establishing trade links with other African countries. The third five-year plan of 1980-1981-1984-1985 came as a reflection of such a strategy.

209. As a result of the massive emigration of Lesotho's labour force to South Africa, agriculture production has been steadily declining over the past few years. The decline was more profound following the poor weather that prevailed between 1977/78 and 1980/81 with even bleaker prospects for 1981/82. However, had it not been for the growing transfers and remittances of Lesotho's workers abroad and the budgetary support from external sources, the situation could have been further worsened.

(b) Sectoral performance

210. Lesotho's overall economic performance has by and large been erratic and influenced by external as well as domestic factors. GDP growth over the 1970s was estimated at about 6 per cent and 9 per cent for GNP, reflecting increased remittances of workers abroad. The available evidence, patchy as it is, indicates that the economy has continued to grow in real terms since 1979-1980 but at [illegible] government expenditure being the major stimulant to growth.

211. The performance of agriculture, being the predominant sector of the economy, remains on the low side. Agricultural production has been on the decline [illegible] agricultural production was much lower in 1981-1982 compared with 1980-1981 with low expectations for 1982-1983 as a result of the drought that took place in April 1982. This will undoubtedly increase the dependence of Lesotho on food aid and food imports from South Africa which now stand at 40 per cent of the country's food deficit requirements. A number of institutional and structural problems have also contributed to such malaise. Notable among them are the pressure on arable land owing to erosion, overgrazing and deforestation, the fragmentation of land into uneconomic units, low productivity and inadequate incentives. Moreover, the development of commercial agriculture and minerals in South Africa created a demand for labour with a number of implications for Lesotho's economy in general, and for agriculture employment and development in particular. However, despite these adverse developments, the Government is keen to improve agricultural conditions to attain self-sufficiency in food production by mid-1990s by fundamental changes of policy concerning the rationalization of the use of land and other measures. One clear demonstration of the Government's determination to

foster agricultural development is the 55 per cent increase for agricultural development in spite of the 39.2 per cent overall reduction in capital programmes.

212. Activities in the manufacturing sector, apart from wool processing in the form of agro-based industries is rudimentary. The migration of the most skilled and active labour force to South Africa is believed to be one of the major causes for neglect of the development of Lesotho's industrial base. However, a sizeable amount of investment has recently been directed into agro-industries, and an expanded canning facility for peas, beans, asparagus and peaches will come on stream shortly.

213. In spite of the tremendous mineral potential, the mining sector, except for diamonds which constitute a vital export product, remains infinitesimally small. On the energy side, Lesotho is completely dependent on South Africa for its energy requirements. The only area where there are some encouraging prospects is the development of water resources. In this respect, the Highland Water Scheme, recently initiated, is intended to provide electric power for most parts of the country.

(d) Fiscal developments

214. Lesotho is a member of the Southern African Customs Union. According to the Customs Union arrangement, all customs, excise and sales duties are collected on behalf of all member countries (Swaziland, Lesotho, Botswana, South Africa) and paid into a common revenue pool administered by South Africa and distributed among the members according to a complicated and structurally unstable revenue-sharing arrangement. The other problems resulting from membership of this Customs Union arrangement include: excessive dependence on one source of revenue, loss of fiscal discretion, the price-raising effect of the high common external tariff barriers to trade and a possible negative polarization of development. Furthermore, the interdependence of migrant labour remittances and the volatile customs union receipts has also become a cause for concern. These remittances accounted for 40 per cent of Customs Union revenue in 1979-1980.

215. In a number of instances, the Government has had to finance significant cost overruns on projects and has had to content with contractual agreements entered into the past. In addition, the expanding donor-funded programme has entailed increased amounts of direct financial support in the form of counterpart contributions. To make matters worse, Lesotho's revenue inflow from diamond sales tax has slumped as a consequence of the diamond market being in its most depressed state since 1929. Sales tax from diamonds accounted for a mere M2 million against a budgeted revenue of M5 Million in 1981-1982. On the expenditure front, there has been a high degree of wastage and inefficiency attached to Government expenditure.

216. Following the severe decline in customs revenue in 1982-1983, the Government is pursuing austerity measures aimed at reducing recurrent and development expenditures. The reasons for these austerity measures include:

(a) The need to service the large short-term public debt rised in 1980-1981 and 1981-1982 to finance the deficits in these years;

(b) The high level of commitment to the development programme including substantial direct counterpart support to the donor-funded capital programme. In addition there has been a liquidity problem arising from the need to make advance payments in the case of a large number of donor-funded projects;

(c) A degree of wastage and inefficiency in government and parastatal expenditures in past years;

(d) Unavoidably high levels of expenditures on security and law and order services;

( ) A decline in recurrent revenue in real terms.

217. In 1982-1983, agriculture, rural development, health and education are the major areas of focus into which the Government's relatively limited resources will be channelled. In addition, expenditures that are directly productive and have significant employment creation effects will be emphasized. The revenue estimates for 1982-1983 amounts to M138.5 million of which M127.2 million constitutes recurrent revenue and the balance of M11.3 million is for non-recurrent revenue. Customs revenue accounts for M76.4 million or 60 per cent of total budgeted recurrent revenue.

218. A key feature of the budget for 1982-1983 is an awareness of the Government of the need to keep a delicate balance between the taxable capacity of the Government, the need to encourage the private sector and the pressing need to consolidate government finances. The ratio of recurrent revenue to gross national product accounted for 21.6 per cent in 1979-1980. The fact that such a ratio is higher than the average tax burden in comparison with other developing countries is fully appreciated by the Government. To broaden the revenue base, taxes on alcohol, trading licences, rents for government housing, ginning levy and casino profits were raised. The recurrent budget expenditure for 1982-1983 is 147.5 million or 16.6 per cent above the appropriation for 1981-1982 (M126.5 million).

219. The capital programme presented is heavily dominated by ongoing projects. New projects have been included only in the most exceptional cases. Out of total funded capital expenditure of M27.3 million in 1982-1983, the amount of M18.4 million (67.4 per cent) is provided as direct counterpart to the donor-funded capital programme.

(c) Balance of payments

220. The thinness of the data base precludes any meaningful discussion on the behaviour of the balance of payments in Lesotho. At any rate, the balance of payments of Lesotho is largely reliant on the South African economy where 95 per cent of import requirements is purchased and to which 90 per cent of Lesotho's exports is destined. The extent of Lesotho's structural dependence on South Africa can be gauged from the ever growing deficit in the balance of trade which is mainly financed by remittances from migrant workers, (77 per cent in 1979-1980), Customs Union revenue and aid inflows.

221. Imports of goods in 1981 were estimated at M466 million as compared with M375 million in the previous year, an increase of 24 per cent. Export values in 1981 are provisionally estimated at M40 million which is M10 lower than export values in 1980. The sudden fall of the value of exports in course of 1981 is accounted for by the depressed demand for diamonds in the international market. From the record figure of M25 million in 1980, the value of diamond exports declined to M18 million in 1981. Receipts in respect of customs duties and cash remittances of miners accounted for M71 and M27 million respectively in 1981.

222. Data on grants and long-term capital are not yet available for 1981. The budget estimates for 1981-1982, however had provided for a M31.1 million drawing on external loans and M51.6 million on grants. Debt service commitments were M14.7 million. Net foreign assets of the commercial banking system were slightly higher than the level reached in December 1980. On the other hand, while the Monetary Authority's foreign assets advanced moderately in 1981, its liabilities went up markedly.

223. The recent depreciation in the value of the rand against other currencies, particularly against the dollar, has meant that the cost of servicing debts denominated in foreign currencies has increased. This factor cost the Government an additional M1.5 million or so in 1981-1982.

224. In 1981, significant changes were made to some sections of the Exchange Control Rulings with a view to reducing and in some cases doing away with certain restrictions which were seen to obstruct foreign investment without benefiting the foreign exchange reserves. Some of the relaxations included the raising of limits on travel allowances for both business and holiday purposes to countries outside the rand monetary area. Private holiday allowances were raised to the maximum of M4,000 per year while business allowances were increased to the maximum of M7,500 per year.

225. Other important changes that took place were the gradual phasing out of counter productive exchange control measures. These steps have had the effect of making non-resident holders of local assets as well as emigrants and prospective investors less apprehensive about the possible loss of their blocked assets. The commercial banks were mandated with additional powers to authorize transactions without the prior approval of the Monetary Authority once they are satisfied with the legitimacy of the transactions.

226. The use of the financial rand facility for investment by non-residents of the Rand Monetary Area was effectively pursued in 1981. A sum of M4.2 million was converted into financial rand in 1981 compared with M3.6 million in 1980. The largest users of the financial rand facility were investors who entered into joint ventures with the Lesotho National Development Corporation.

(d) Monetary development

227. Broadly defined, money supply increased by 22.8 per cent from M139.22 million in 1980 to M170.92 million in 1981. Among the major factors exerting substantial influence on the expansion of money supply were net foreign assets of the banking system and domestic bank credit. Between 1980 and 1981 domestic bank credit of both the private and public sectors increased by 84.5 per cent.

Had it not been for the 14.1 per cent contraction of net foreign assets of the banking system, money supply would have even expanded much faster.

228. Despite the rise in interest rates, commercial bank claims on the private sector increased markedly in 1981. This is in contrast to the banking phenomenon observed in 1970s when the commercial banking system was highly underlent for lack of viable projects to which to channel funds. The combined loan-deposit ratio of the commercial banks, which was as low as 68.3 per cent at the end of 1980, rose to 80.6 per cent at the end of 1981. Unlike the year 1980 when a large share of bank credit was geared to the service sector (labels, restaurants, personnel) other productive sectors such as manufacturing, mining and quarrying edged up and received larger shares in 1981.

229. Monetary policy in Lesotho is closely related to that of South Africa. Largely this relationship stem from and are influenced by Lesotho's membership in the Rand Monetary Area and the Southern Africa Customs Union. In response to the world-wide trend in interest rate movements, the Monetary Authority raised its discount rate on 29 July 1981 from 6 per cent to 9.5 per cent and again on 19 November to 12 per cent.

230. In August 1981, minimum and maximum rates charged by commercial banks to borrowers were raised from their June levels of 10 per cent and 17.5 per cent respectively, to new levels of 11 per cent and 18 per cent. Also the minimum and maximum rates paid by commercial banks on savings deposits were raised to 5 per cent and 6 per cent respectively.

231. Consumer prices increased by 13.5 per cent in 1981 compared with 13.8 per cent in 1980 and 22.2 per cent in 1979. There are indications that inflation will slowdown in 1982 as prices of some imported goods may affect the general level of prices in the country. It should also be noted that Lesotho relies heavily on imports, and costs and prices in neighbouring South Africa in particular have an impact on domestic prices.

2. Major problems and policies

232. Most of the Lesotho's past and present problems stem from its ecological and geographical location. Being land-locked with undeveloped infrastructure, formidable economic problems have persisted in the economy for a long time. The worsening conditions of the agricultural sector and the inadequacy of transport and communications for internal and external access become a matter of primary concern for immediate attention. The Government has recently enacted a set of measures and policies with a view to remedying the situation.

233. One of the main objectives of the third development plan (1980/81-1984/85) is the improvement of the budgetary situation which was running into chronic deficit, for a long time owing to the vulnerability of custom revenues. To this end, the Government has recently decided to lessen dependence on this source of revenue with a gradual move from the orbit of South Africa. To tap other sources of revenues, the Government introduced a sales tax and intends to introduce a property tax on agriculture and livestock, and a land tax after

the introduction of the Land Reform Act. To promote the growth of the productive sectors, the Government has recently introduced a series of measures and incentives under the Pioneer Industries Encouragement Acts and launched a development programme for agriculture with the aim of enabling the country, through increased agricultural productivity, to be self-sufficient in and accumulate sufficient reserves of strategic supplies of staples by 1985.

234. The main policies in the external sector are directed to lessen trade dependence on South Africa by significant access to outside markets. The urgency of this matter is due to the fact that Lesotho is currently paying higher prices for oil because of the oil embargo on South Africa, thereby losing an income gain equivalent to the differential at international prices. Owing to the insecurity of export proceeds from wool, the major export item, whose price has continuously been dampened by South Africa, the Government is directing more efforts towards the diversification and intensification of the export sector by restructuring the agricultural sector, developing upgrading and processing facilities for wool and mohair and developing the tourism industry.

235. In the field of monetary policies, the Government has enacted laws to reform the operation of the commercial banks to provide better credit facilities to local farmers and businessmen and to channelling domestic savings and the excess liquidity held by the commercial banks to finance development projects. In the new policy the monetary authority was entrusted with the administration of foreign exchange reserves, to act as a reservoir for commercial bank's excess funds and is supposed to haulit the tendency of the commercial banks to hold balances outside in preference to investing in the country. By this new policy, commercial banks are required to maintain treasury bills equivalent to 3 per cent of their deposit liabilities to the public and to maintain investment of an amount not exceeding 5 per cent of its current liability in Lesotho.

MALAWI

[illegible]. Main Recent Economic Developments, 1981-1982

( ) Overall growth trends

[illegible]. Malawi which was one of the fastest growing African countries in the mid-1970s has experienced a significant slowdown in growth since 1979 reaching a real growth of more 0.2 per cent in 1980. Economic activity in 1981 continued to be sluggish with total GDP at 1978 prices growing by about 1 per cent. The slow growth in 1981 resulted mainly from significant declines in the output of the construction, distribution and transport sectors. Activity in the construction sector declined from the peak growth of 1979 to a 9.1 per cent and 20.7 per cent decline in 1980 and 1981 respectively. The distribution and transport sectors recorded declines in growth of 5.4 per cent and 4.6 per cent in 1981 respectively. In addition, the manufacturing sector decelerated in 1981 from a growth rate of 6.1 per cent in 1980 to only 2.6 per cent in 1981. However, despite these disparate sectoral growth rates, there were no pronounced changes in 1981 in the shares in total GDP of the various sectors. The agricultural sector, which grew by 5.8 per cent in 1981, continued to be the main contributor to GDP with its share rising by 2 percentage points to reach to about 40 per cent of GDP in 1981. The shares of the construction and distribution sectors declined slightly while the shares of all other sectors remained almost constant. The performance in 1982 would seem to have stagnated since the July 1982 indicators show that, although the total quantity of tobacco sales and tea production was higher than the 1981 level for the same period, manufacturing output and transport activities declined. However, the construction sector would seem to have picked up slightly in 1982.

237. Total gross domestic investment at current prices registered a significant decline of 11.4 per cent in 1981. The decrease in investment is attributable to large declines in fixed capital formation in both the public sector and the private sector. Stocks on the other hand expanded significantly in 1981 by 248.9 per cent following some destocking in 1980. Another important aspect of the decline in investments in Malawi in 1981 was the decrease of over 35 per cent in the nominal value of imports of machinery and equipment. Total consumption in nominal terms grew by 19 per cent in 1981 which implies that domestic savings decreased significantly in the year. However, given the fall in fixed investments, the national savings gap in 1981 is estimated to have narrowed to K145.2 million, representing a reduction of 18.3 per cent on the national savings gap recorded in 1980. Total exports in 1981 amount to K255.3 million showing an increase of 7 per cent over the 1980 export level. Imports on the other hand declined by over 9 per cent to K321.9 million thus bringing about an overall reduction in the trade deficit from K126.2 million in 1980 to K64.4 million in 1981.

(b) Sectoral trends

238. In 1981, the agricultural sector showed a recovery from the 1980 negative growth of 4.9 per cent and recorded a real growth of 5.7 per cent. This recovery was wholly from the small holder sector which, owing to improved weather conditions relative to the 1979-1980 period, had improved output in tobacco, maize and cotton. The estate subsector recorded an overall fall in output with a nearly 7 per cent fall in tobacco production as a result of reduced acreage in response to the continuously depressed world tobacco prices. However sugar and tea production on the estate subsector rose in 1981. Of the three major cash crops, sugar, recorded the best performance by 6.1 per cent reaching a level of 71.9 million kilograms while output of tobacco declined in volume terms by 4.9 per cent. In 1981 the overall purchases of other domestic crops except maize declined and this trend continued through the first half of 1982. Manufacturing output in 1981 increased by 11.9 per cent mainly as a result of increases in goods manufactured for the domestic market like sugar and textiles. Processing for the export market, including activities like tea manufacturing, cotton ginning and to some processing, continued to decline in 1981 by 10.4 per cent. Production for intermediate goods also declined because of the slowdown in the building and construction sectors. Cement production, for example, decreased as a result of disruptions in the last quarter of 1981. By July 1982, the index of manufacturing output (1970 = 100) for the period January-July was only 203, as compared to an index of 224 for a similar period in 1981. In the energy sector, the production of electricity with an installed capacity of 110 MW in 1979 showed some increase in 1980 and the production of petrol, which averaged that year, reached an output level of 7.0 million litres per week.

239. As a number of major projects came to an end, the construction sector declined in 1981. However, as a result of a sharp jump in the value of plans approved in the public and private sectors for buildings and other construction activities including civil engineering construction, growth could have moved out of the slump experienced in 1981. Transport performed poorly in 1981 especially in the first two quarters of the year. The tonnage carried by rail declined throughout 1981 by 17.6 and 7.4 per cent in the first and second quarters respectively but a slight improvement followed in the third quarter. Lake and road transport as well as airfreight all declined through 1981. These trends seem to have persisted throughout 1982 and the country suffered from the increased costs and delays of the longer routes that had to be used.

(c) Financial developments

. During 1981, overall credit expansion exceeded the total accumulation of financial resources, thus putting increased pressure on the foreign exchange position. The expansion in total credit was due to a large increase in net claims on Government of K485.2 million as compared to a credit expansion of K130 million for the private sector. The increase in credit to Government in 1981 resulted from expenditures on emergency maize imports, foreign debt servicing and other extrabudgetary requirements including those arising from the high interest rates in the international money market. According to revised estimates, the budgetary deficit amounted to K116.1 million and K120 million for the 1980-1981 and 1981-1982 periods, representing 12.5 per cent and 10.1 per cent of GDP at current market prices respectively. However, the total deficits would seem to have resulted from the development budget since the recurrent account registered a surplus of K .6 million in 1980-1981. Statutory corporations continued to suffer from liquidity problems as domestic financing of these bodies declined in 1981 to K .7 million as compared to a level of K28.5 million in 1980. As a result, the corporations intensified the trend of recourse to the central Government for financial support, largely in the form of increased grants and subventions.

(d) Development in the external trade sector

'. Total exports in 1981 amounted to K 55.3 million, representing a deceleration in export growth from 32 per cent in 1980 to only 7 per cent in 1981. The export performance was affected by the sharp fall in the value of exports of groundnuts and tobacco. Thus while the value of sugar exports nearly doubled in 1981 to K 7 million as a result of increased in the volume exported and tea exports increased by only 5 per cent to K .1 million, tobacco exports only marginally increased from K100.8 in 1980 to K101.6 in 1981. Other exports, including manufactured goods, increased by 5 per cent to K35.5 million. The increase was mainly due to increased exports of manufactured to neighbouring countries. The total value of imports declined in 1981 from K357.2 million in 1980 to K301.9 million, due mainly to a marked fall in consumer goods imports, machinery, building materials and, to some extent, petroleum imports. The trend in 1982 shown further declines in imports with a value of K179.6 million for the period January to July as compared to an import level of K198.9 million in the same period in 1981.

242. The balance-of-payments situation of Malawi in 1981 remained poor in spite of some improvement in the merchandise trade balance. In 1981, the overall balance-of-payments position was affected by large increases in payments for services and goods, declines in net capital inflows and debt service payments. The deficit on non-factor services reach K95.5 million, while the deficit on factor services stood at K63 million with interest payments accounting for as much as K46.4 million.

2. Major problems and policies

243. After a relatively health growth in the 1970s, the significant slowdown in growth since 1979 constitutes a major problem for Malawi. This problem is accompanied by increasing government budgetary deficits, increasing financial problems of many of the enterprises and corporations and a continually difficult balance-of-payments situation. Further, the terms of trade of Malawi have been persistently unfavourable. As a result of such problems the Government has increasingly resorted to domestic borrowing and the economy as a whole has has to sustain heavy foreign borrowings even from commercial capital markets.

244. Against this background, the five-year development programme of Malawi for the period 1981-1985 aims at restoring an overall internal and external balance of the economy. At the domestic level policy measures will be aimed at improving the financial situation of the public sector as a whole through such measures as increased taxation, appropriate pricing policies for public enterprises and increased government expenditure on investment rather than the current items. Improved incentives are also envisaged to play an important role. For export crops annual reviews of producer prices are planned while for domestic products tariffs are to be adjusted. Policies will be formulated, **inter alia**, to raise the share of government revenue in total GDP to the historical range of 22-23 per cent. In the external sector, government policies are to be directed to increasing export volume and reducing imports. The range of crops as well as agro-industrial exports is also to be broadened.

245. In pursuance of these objectives and policies the 1982-1983 budget was based on an appreciation of the need for austerity, emphasing the need to shift resources to the productive sectors. The budget also introduced tight controls on overdraft facilities for statutory bodies and higher interest rates for loans to parastatals (12-13 per cent). The budget also proposed targets for rates of return of public projects (not less than 15 per cent). Further, an expenditure monitoring system was also established.

240. Lastly, the Government of Malawi announced on April 1982 a devaluation of 15 per cent in relation to the SDR. This was done to ease the growing balance-of-payment problems by increasing exports while discouraging imports. In addition, Malawi requested for a second structural adjustment loan from the World Bank to follow the $46 million credit agreed to in 1981. The loan is to finance part of the deficit on the current and development account for the financial year 1982/83. Further in 1982, IMF approved a standby arrangement of up to $24.4 million during 1983. The arrangement will support the first phase of the adjustment programme aiming at reducing public sector losses and stimulating growth.

ML

1. Economic trends, 1981-1982

(a) General development

24. 1981 saw no change in recessionary trend that the country had been experiencing for a number of years. Thus, the output of almost all industries has dropped. With a GDP at current market prices estimated at F CFA 958.2 billion, the growth rate was 3.5 per cent as against 15 per cent in 1980. Despite difficulties in estimating growth in real terms and the slowdown in domestic inflation, this rate seems to reflect a negative growth. The economic recession plaguing the country is attributable to a number of structural factors:

(a) Almost total dependence on a rural sector which is very vulnerable to the vagaries of the weather, making it thus impossible to control production;

(b) The country is land-locked and vast (1,240,000 km^2); this often lowers the competitiveness of products and creates problems as far as harvesting is concerned;

(c) Re-opening some industries that are crucial to the socio-economic development of the country (especially textiles) to private capital while State companies and enterprises operating in the country had not become mature enough (in terms of both invested capital and institutional management structures), to fend off competition;

(d) Social policy (education and health) which costs government departments and households for which it is designed more than they can afford, often with no provision for integration structures, jobs or the return to the rural areas of children who have been unable to complete school cycles.

(b) Sectoral development

25. Agricultural production valued at F CFA 130.0 billion (an increase of 3.2 per cent with respect to 1980) gives ground for hope that the country's food situation will improve. Indeed, with a production of 1.11 million tons of cereals (staple food) in 1981 as against 992,000 tons in 1980 (an increase of 24 per cent) it is hoped that a bigger portion of domestic demand will be satisfied. The production of cash crops such as groundnuts, cotton and dah dropped by 5.4 per cent; groundnut production remained at the 1980 level of 92,000 tons while the output of cotton dropped by 11.4 per cent from 110,000 to 98,000 tons. Cotton, which is a labour-intensive crop requiring expensive inputs, seems to have been abandoned by farmers in favour of other crops such as maize; this resulted in a drop of 16.3 per cent in the quantity

of cotton marketed and of 24.0 per cent in the value of exports. Stock breeding, which accounts for one third of exports, remained the major component of the rural sector which explains the priority accorded to it by the 1980-1985 development plan. (F. 580 billion worth of projects).

249. Industrial production which accounted for 12.5 per cent of GDP in 1981 has been stable since 1970. It remained almost constant at 62.3 billion in 1981 as against 57.5 in 1980 and handicrafts provided 30 per cent of the value of that figure. This stagnation, especially the 10 per cent drop in the modern industrial production index, is attributable to difficulties in getting supplies of local raw materials (effects of bad harvests) and imported raw materials (external payments difficulties) and spare parts; it is also partly due to problems in managing State enterprises whose production has dropped by 15.9 per cent as compared to 1980. Building and public works as well as trade experienced a drop of 6.2 and 5.8 per cent respectively while transport and other services increased by 12 and 28.4 per cent respectively.

250. With respect to demand, the deficit of goods and services was 21.5 per cent of GDP as against 19.2 per cent in 1980 and consumption expenditure accounted for 113.5 per cent of GDP while the portion of capital formation fell by 20 per cent in 1979 to 16.8 per cent in 1980 then to 11.3 per cent in 1981. This trend is due to two major factors:

(a) Despite the increase in per capita income in real terms, economic transactors wanted to maintain their level of consumption; and

(b) External resources which account for more than 75 per cent of investment financing dropped.

(c) External trade - balance of payments - external aid

251. External trade with the outside world resulted in a deficit of FM 117.1 billion as against 99.5 billion in 1980. Exports dominated by cotton (which accounted for 39 per cent in 1981 as against 50.2 per cent in 1980) and livestock products (32.4 per cent in 1981 and 29 per cent in 1980) decreased in value by 3.2 per cent mainly because of the bad 1980-1981 harvest. There was a slowdown in the growth of imports - plus 7.9 per cent compared to plus 21.7 per cent in 1980. Net transfers amounted to FM 70.3 billion an increase of 17.4 per cent, while net capital flows amounted to +FM 11.7 billion against -0.5 billion in 1980 (an indication that the donor agencies did not react as expected to the financing needs of the 1980-1985 development plan corresponding to an annual flow of FM 160.2 billion. Mali's national debt nevertheless amounted to FM 500 billion including FM 114 billion to the French treasury, with debt services accounting for about 20 per cent of exports (about FM 28 billion and net debts vis à vis the outside world corresponding to 19.2 per cent of GDP.

(c) Fiscal and monetary policies

[illegible] Despite [illegible] the country's overall deficit was more or less the same in 1974 as in 1973, at $ EC 4 million in 1975 and $ EC 5 million in 1976. This was a result of the rapidly financial measures implemented by the International Monetary Fund, aimed at reducing ordinary expenditure, especially on health and education, in favour of capital expenditure. [illegible] the country, coupled with the deficit in the external accounts, [illegible] fiscal policy adopted by the countries in the [illegible], made it possible to reduce the overall rate of the money supply in the year ended in 1974 compared to 1973 and 1972 and an annual average of [illegible] per cent between 1974 and 1976. The private sector's share of domestic credit rose at the 1974 level - $EC 44.1 million - while the share of the Government and State corporations and enterprises, [illegible] per cent of total credit granted, increased by [illegible] per cent respectively.

• Major problems and policies

[illegible] As pointed out earlier on, the [illegible] country is [illegible] the scale of worthwhile activity [illegible] within [illegible] do not permit all to provide a gainful livelihood [illegible] area [illegible] only 21,000 hectares. The political options for development selected [illegible] have resulted in:

(a) The establishment of a platform of operations in the State sector which results in very heavy [illegible];

(b) The generalized application of social prices which were [illegible] private production rather than [illegible] profitability of industries.

[illegible] Currently, [illegible] are still [illegible] major problems:

(a) [illegible] of recurrent and [illegible] programme affecting four major sectors:

(i) Public finance. [illegible] the increase in salaries [illegible] amounts were [illegible] per cent [illegible] recurrent [illegible] to the country's capabilities and [illegible] the fiscal system, in [illegible] [illegible] by [illegible] deficit [illegible] of $ EC [illegible] million in 1976 to $ EC [illegible] million in 1977 [illegible] an increase of [illegible] per cent in revenue. Thus the increase in expenditure will be limited to [illegible] per cent.

E/CN.14/UCS.3/2
Page 2

THE ECONOMY

1. Economic trends, 1981-1982

(a) General development

25. During 1981 there continued to be a decline in the growth rate of the economy of the [illegible]. From 1961, 1970, 1977 and 1979 respectively, the growth rate of GDP at current prices fell to 17 per cent in 1980 then to 9 per cent in 1981 according to initial estimates. This recession, which is due in part to the difficulties being experienced by the uranium sector, was compounded by a big drop in agricultural production which had adverse effects on industrial production based mainly on agro-industries.

(b) Sectoral development

26. Inland, cash crops dominated by groundnuts, cotton and millet droped in value by 13.7 per cent as compared to 1980 bringing about a decrease in the quantities marketed of more than 50.4 per cent (14 per cent for groundnuts and cotton and 91 per cent for millet). This trend, which is the result of a deliberate policy of the country's authorities to give priority to attaining food self-sufficiency, resulted in satisfactory harvests of food crops: there was an increase in the production of the country's three main staple foods. The production of millet and sorghum rose by 8.7 per cent and food self-sufficiency was attained in those crops while the production of paddy rice increased by 20 per cent. The cereal output was 1.7 million tons. Agricultural production valued at CFAF 225.9 billion grew at current prices by only 2.3 per cent (a negative growth in real terms and a decrease in rural incomes because producer prices remained at the 1978 level).

27. This development in agricultural production, which provides the basis of the country's industrial production, brought about the closure of two of the country's vegetable oil factories while the third factory operated at only 3 per cent of its capacity. The increase of 9.4 per cent in the value added of the industrial sector (as against 12 per cent per annum between 1977-1979 and 1975-1979) seems to be solely attributable to the textiles and chemical industries which took advantage of the [illegible] of the market of neighbouring Nigeria because even the Société Nigérienne de Ciments, which had been very active until 1979 after construction work began on major socio-economic infrastructure, experienced a drop of 24 per cent in its production in 1981.

259. The production of the mining sector which is dominated by uranium amounted to CFAF [illegible] billion at current values as against CFAF 57 billion in 1978, i.e. a decrease of about [illegible] per cent. Uranium production increased by [illegible] per cent in value and the quantities sold increased by 11.6 per cent in 1979 (as against 1.6 and 1.4 per cent in 1978) while the value of sales dropped by [illegible] per cent because of the increase in world stocks and the corresponding fall in producer prices from 13 to 1 per cent. It should be recalled that uranium production is of absolute importance to the State because it provides 75 per cent of export revenue and 30 to 40 per cent of the State's budget income. The only positive aspect of the mining sector was the opening, in early 1979, of the Arlit thermal coal mine which will make it possible to cover the electric power requirements of the uranium extracting units and certain towns, thus reducing the Niger's oil bill appreciably.

260. The rate of investment and resources for it which have been 25 per cent and 7 to 8 per cent of GDP respectively since 1978 seem to have been maintained at the same levels as in 1978 because construction work has continued on the major infrastructure such as access roads to the uranium mines and big hotels and an increase in food crops production which played a determinant role in reducing imports by about 5 per cent.

(c) Fiscal and monetary policies

261. As mentioned above, the State's budget was affected by the slump in the mining sector especially in uranium. The ever-increasing income from uranium between 1972 and 1978 brought about an appreciable expansion in the budget corresponding to annual average rates of 14.4 per cent and 29.2 per cent between 1973-1977 and 1975-1979 respectively. However, in order to take into account the drop in uranium prices, the share of direct taxes in total income was reduced from 39 to 19 per cent while the share of indirect taxes went up only 2 points (from 17 to 19 per cent) and customs and excise duties valued at CFAF 39 billion accounted for the same percentage as in 1978. The main noteworthy aspect of the 1980-1981 regular budget is that appropriations for capital goods and hence for the national investment fund which is constituted from transfers from uranium income was kept at the 1980 level of CFAF 45 billion. The general position of the treasury which has showed a credit balance since 1974 is expected to deteriorate in 1981.

262. The country's monetary position in 1978 was affected by three events:

(a) The increase in net foreign assets of monetary institutions (mainly the central bank) from CFAF -92 billion in 1978 to +4,917 million in 1981 following substantial drawing on foreign resources by the State and by some big enterprises as well as measures taken to repatriate export earnings effectively;

(b) The slow down in the growth rate of domestic credit from 36.8 per cent in 1980 to 29.2 per cent in 1981 (CFAF 99.6 billion compared to CFAF 77.1 billion) mainly because of an increase in credit injected into the economy from 88.1 in 1980 to 100.8 billion in 1981, an increase of 14.4 per cent as against 36.2 per cent;

(c) The sustained growth in money creation (34.4 per cent in 1981 as against 32.8 per cent in 1980 and an annual average of 23.1 per cent between 1970 and 1979) because of the reconstitution of foreign assets and a steep decline in the net position of the Government from CFAF 110 billion in 1980 to CFAF 1.2 billion in 1981. The money supply thus increased to CFAF 96.0 billion in 1981 despite restrictive measures such as an increase of 10.5 per cent in the discount rate in early 1981.

(d) External trade - balance of payments

203. In 1981, there was a reduction of the trade balance deficit from CFAF 19.5 to 14.2 billion despite a slight drop in exports (-1.4 per cent) and imports contracted by about 5 per cent. The improvement in the trade balance and in the balance of unrequited transfers from CFAF 12.5 to 19.5 billion made it possible to reduce the current operations deficit from CFAF 56.2 billion in 1980 to CFAF 48.3 billion; that deficit was amply covered by non-monetary capital transfers because there was a surplus in the overall balance of CFAF 2.5 billion in 1981 and debt servicing accounted for about 7 per cent of export earnings.

3. Major problems and policies

204. The economy of the Niger seems to be developing in a balanced manner. That is why in recent years the authorities have not had to take far-reaching measures to regulate the economy. For the time being, the country seems to have been able to absorb the drop in uranium prices by increasing uranium output and reducing production costs particularly by substituting power generated from local coal for petroleum imports. The decision to opt for food self-sufficiency has made it possible to maintain a certain balance in trade with the outside world (decrease in food imports) while signalling a decisive phase in the establishment of a society developed by all for all. The main drawback remains the landlocked nature of the country. The temporary nature of the slump in uranium prices, the priority accorded to socio-economic infrastructure to which 31 per cent of investments under the 1979-1983 plan have been devoted and the substantial increase in official development assistance to least developed countries give grounds for hope that the growth in the country's economy will remain around 9.5 per cent per annum as projected in the plan and as it has been until now.

1. Economic trends, 1981-1982

(a) Overall growth trends

265. Rwanda has a surface area of 26,338 km^2. It is land-locked, 1,500 km from the nearest seaport. Its population was estimated at 5 million in mid-1980, giving a density of 190 inhabitants per km^2, the highest in Africa. The overall GDP at current factor cost has been growing steadily at about 13.5 per cent per annum during the 1977-1981 period, with a big push coming mostly from such sectors as manufacturing (18.5 per cent), housing and public work (15.4 per cent), transport and communication (29.9 per cent), services (15.4 per cent) and mining and quarrying (11.9 per cent). With the average annual growth rate of inflation of about 10.1 per cent, real GDP is estimated to have been growing steadily at about 3.6 per cent per annum during 1976-1981. In real terms, the agricultural sector performed poorly in 1981 (1.4 per cent), whereas industry grew at 5.2 per cent and services 4.5 per cent. Thus, the GDP growth target of 5.9 per cent per annum prescribed by the five-year plan (1977-1981) has not been reached, presumably because of the worsening international economic situation. With a population growth rate of 3 per cent per year, per capita GDP growth rate just stagnated and it is estimated to have reached $US 89 in 1980 and $US 91.8 in 1981 in real terms.

266. Total consumption, which represented about 95.9 per cent of GDP in 1981 grew by about 2.6 per cent, mainly as the result of the increase in private consumption. Public consumption stagnated at between 12 and 15 per cent of GDP, as a result of the Government's squeeze on public expenditure. This leaves a donestic savings of 5 per cent whereas the investment rate stood at about 12 per cent of GDP. Therefore, the internal resource gap amounted to 7 per cent of GDP which, inevitably, has to be financed by external resources. Foreign trade gap (imports-exports) amounted to RF 12,903 million in 1981 or 16.2 per cent of GDP. This shows that in Rwanda, it is the foreign resource gap which is dominant.

(b) Sectoral trends

267. Agriculture is still the dominant sector in the Rwandan economy since it represented 42 per cent of GDP and 92 per cent of the country's export earnings in 1980. Cereals production rose from 3,890,100 tons in 1978 to 5,359,500 tons in 1981. Despite such food expansion, it is estimated that food deficit in 1980 was about 57,000 tons of cereals. The objectives of the five-year plan (1978-1981) was to reach an overall average growth rate in food production of 3.5 per cent yearly with the assumption of a 3.6 per cent population growth rate. But, in reality, it was found that population is growing by 3.9 per cent. Thus

the per capita food balance still remains far from being satisfied. With regard to each export crops, coffee production reached a record of 35,000 tons in 1979, and, with highly favourable export prices coffee earned RF 12.1 billion. The coffee production declined in 1980 to 29,847 tons and peaked slightly in 1981 to 31,176 tons. Other industrial crops - tea, pyrethrum and quinquina - progressed only slowly. Mining activities declined in 1981; the production of metal minerals (cassiterite, wolfram and beryl) was 2,424 tons in 1981 compared to 2,918 tons in 1980. The only metal to see significantly increased production was gold, rising from 35 to 40 kg between 1980 and 1981. The manufacturing sector still remains very small and dependent on production for local consumption although some export commodities, notably coffee and tea, are processed locally. There are two textile mills, one brewery, several plants for soap, paint, pharmaceuticals, furniture and aluminium goods. In 1981 about three quarters of the electric energy available in Rwanda was imported from Zaire but, by December 1982, Rwanda had built its own hydroelectric plant at Mukungwa to reduce dependency on Zaire's energy.

(c) Financial development and prices

266. In general, the financial situation of Rwanda was very well balanced in 1981, following the "austerity budget" programme adopted by the Government in 1979-1980. The Government imposed some limits on recurrent expenditure which should not exceed the current budgetary revenue of RF 12.7 billion which represents a 13.4 per cent increase over the 1980 budget. This budget amounts to about 13.5 per cent of GDP. Development expenditure amounted to RF 3.2 billion, 40 per cent of which has financed by local resources and 60 per cent by external resources. The overall budetary ratio to GDP was about 16.5 per cent and the Government aims to reach the target of 20 per cent by 1985 so as to allow a progressive monetization of the Rwandese economy to take over the actual persistent subsistence economy. Money supply broadly defined to include currency in circulation, demand deposits and quasi-money, grew by 7.8 per cent to RF 16.5 billion in 1981. The main factor behind such growth is the rapid monetization of the economy since in general prices have remained moderately stable and foreign assets, which represent about 20 per cent of total assets, fell by 4.2 per cent because of a drop in coffee export earnings. Domestic credit which accounts for about 80 per cent of the total assets increased by 176.4 per cent.

(c) Development in the external sector

269. The overall trade balance was negative in 1981. The deficit, which amounted to RF 4,193 million, was much higher than the one of RF 1,557 million recorded in 1980, the reason being that there was a 19.3 per cent drop in export earnings. Coffee exports were down by 9.9 per cent; exports of mining products decreased by 11.3 per cent and tea by 9.2 per cent. These items account for about 93.1 per cent of total exports. Total imports of goods increased by 11.4 per cent to RF 14.3 billion in 1981, with food imports representing 7 per cent of the total, fuel and other intermediate goods 36.1 per cent, consumer goods 33.5 per cent and equipment goods 23.1 per cent. The terms of trade deteriorated in 1981 to 100.4 per cent compared with 131.2 per cent in 1980, owing to the fall in the export price index of coffee and tea and the stability of import prices. The balance of services has always recorded chronic structural deficits, mainly as a result of the long distance from the sea and the weak development capacity of the international transport companies operating in Rwanda. Consequently, the overall balance of goods and services deteriorated in 1981. However, this deterioration was attenuated by official transfers and capital movements, so that the overall balance of payments showed a surplus of RF 470.4 million in 1981 compared with RF 2,113.5 million in 1980. Taking into account the net "errors and omissions" net changes in international reserves fell to RF -830.3 million.

2. Major problems and policies

270. There are several constraints to the development of the Rwandese economy; namely the land-lockedness and the population explosion. About 90 per cent of export-import cargo is handled over the northern route, 1,735 km long, passing through Uganda and Kenya to Mobassa; the rest is handled over the southern route (1,740 km) passing through Burundi, Lake Tanganika, and the United Republic of Tanzania to Dar-es-Salaam. Transport costs more than doubled between 1977 and 1980. In addition, Rwanda has difficulties in connecting several isolated regions or villages within the country, owing to the mountainous terrain and bad roads. The population explosion has hampered rural development, increasing pressure on land. The weakness of agricultural production is also due to the shortage of sufficient inputs, the deterioration of soil by overexploitation and erosion. The shortage of highly qualified manpower, the weak and hazardous character of export earning the insufficiency of budgetary resources and the narrowness of the domestic market are another set of problems which Rwanda faces for its development.

271. The second five year plan (1977-1981) and the third five year plan (1982-1986) have defined policies aimed at dealing with the above constraints. In the agricultural sector, the Government's main policy consists of increasing food production by improving soil productivity, the use of fertilizers and the widespread distribution of selected seeds so as to reach the target of self-sufficiency in food. The mobilization of all the work force through the "UNCAIDA" scheme and the utilization of the labour force through a better mix between land and labour are also designed to improve agricultural labour productivity and the labour employment market. Recently, the Government has initiated institutional reforms in the industrial sector through the expansion of the industrial promotion office, the creation of a Chamber of Commerce for the development or small- and medium-scale enterprises, the creation of a technical school to train industrial technicians and the reorganization of the management in some semi-public enterprises. The Government has also pursued a fiscal policy that would promote industrial investment and protect domestic industry as well as a monetary and credit policy that would make available a guaranteed fund for small- and medium-scale enterprises in the fields of agriculture, industry, transport and communications and trade.

SOMALIA

1. Economic trends, 1981-1982

(a) Overall growth trends

272. The overall level of economic activity in 1981 accelerated after a marked deterioration in the previous year. GDP picked up slightly in real terms to 1.1 per cent in 1981 from a deceleration of 0.7 per cent in 1980. The recovery is believed to be the result of the intensification of the adjustment stabilization programmes started in early 1980. Moreover, the good performance is related to the positive development of agriculture in that year due to the extremely favourable weather conditions and the record agricultural harvest after a period of profound drought. Equally, the development in the external sector was quite remarkable with a favourable reflection on the budgetary position.

273. Exports picked up and the deficit of the balance of payment narrowed down considerably. Similarly, the overall budgetary deficit improved relatively in 1981 owing to increases in revenues and curtailment of expenditure. Consequently, the tightening of fiscal policy and demand management brought down the rate of inflation from 50 per cent in 1980 to 44 per cent in 1981.

(b) Sectoral trends

274. The agricultural sector, by and large, remains relatively undeveloped producing only subsistence crops such as maize and sorghum. Cash crops are insignificant. The only major export commodity is bananas. The growth of the agricultural sector is sporadic generally depending on weather conditions. Over the last few years, agricultural production was stagnant and adversely affected by drought low productivity, lack of fertilizers and pesticides and marketing problems. The small increases in real terms of 1.1 per cent in 1981 as against 0.9 per cent in 1980 is believed to be a temporary phenomenon governed by natural conditions. None the less, the appreciable increases in agricultural producer prices with a view to stimulating production and cracking down on the recent shift of farmers from the production of bananas and other agricultural crops whose prices are controlled to livestock, with uncontrolled prices, boosted agricultural production in 1981. Moreover, the provision of financial incentives and improvements in marketing and shipping facilities led banana exports to double in that year.

275. The country's economic base is basically a pastoral one. Nevertheless, the livestock sector is commercially oriented for export. Four fifths of the country's exports originates from it. Priority is given in the development plans primarily to the development of the sector through intensification of animal health and organization of livestock marketing services in support of the export trade. In spite of the development efforts, the sector has still been experiencing slow growth rates over the past few years. Production dropped significantly in 1979 with a deceleration of 5 per cent due to the drought but picked up remarkably in 1980 to a rate of increase of 9 per cent.

276. The manufacturing sector is infinitesimally small with a contributing share of a mere 9 per cent to total GDP. The major activities are sugar production and oil refining. In 1980, the sector achieved a rate of increase of 4.7 per cent compared to a small increase of 1.6 per cent in 1979. The causes behind the underutilization of capacities are the lack of basic industrial inputs such as spare parts and the disruption of crude oil imports.

(c) Balance of payment

277. The position of the balance of payment improved remarkably in 1981. The improvement came primarily from substantial reductions in imports and a marked increase in cattle exports. None the less, the overall deficit continued but was smaller than it had been in the previous years. The deficit narrowed sharply from $28 million in 1980 to $10 million in 1981.

278. On the merchandise side, the trade balance showed a small surplus of $4.7 million in 1981 after a record negative in 1980 when exports could hardly cover half of the import requirements. The revival in exports in 1981 was attributed to the devaluation of the Somali shilling and the manipulation of the new real exchange rate for exports. The boost in exports came from both rises in volume and unit value of livestock and bananas, which both accounted for 97 per cent of total exports. Similarly, on the transfer side, a favourable situation developed from the introduction of the parallel market system which led to the inflow of large remittances by Somali workers abroad.

279. The rising demand for imports which persisted throughout the 1970s subsided considerably in 1981 owing to the improved position of domestic production. In addition, the franco valuta system, which was in operation throughout most of the 1970s and used to supply 17 per cent of total imports by the private sector with no official transactions, was abolished in 1981 leading to considerable reductions in imports. Similarly, imports of investment goods declined by 40 per cent owing to the government policy of curtailing capital expenditure. The overall effect was a general improvement in the current account gap which fell from $136 million in 1980 to only $104 million in 1981. At the same time, foreign exchange reserves improved significantly from $7 million at the end of 1980 to over $25 million at the end of 1981, but only to cover two months of cash imports.

280. The capital account registered a smaller surplus in 1981 than in 1980 mainly because of the slowdown in implementation of foreign-financed projects. However, the outstanding external debt increased by 15 per cent in 1981 to reach $769 million and the debt service payments increased from 4 per cent of export earnings in 1980 to 11 per cent in 1981.

(d) Fiscal developments

281. The budgetary position improved relatively in 1981. The overall central government deficit dropped sharply from a level of 39 per cent of expenditure in 1980 to 24 per cent in 1981 owing to an improvement in revenue and curtailment of expenditure. Revenues rose appreciably by 27 per cent in 1981 owing to rises in import taxes mainly through the abolition of a large number of exemptions granted to the public enterprises. Similarly, receipts from excise taxes rose with the large increases in locally manufactured sugar. On the other hand, expenditure rose only by 15 per cent owing to the restrained expenditure policy and in particular the strict implementation of expenditure controls on expansion of public outlays. Moreover, the policy of guaranteed employment for all school leavers with its serious implications on the wage bill was moderated. The aggregate demand pressures which were prevailing earlier were partly relieved as a consequence of a slowdown in the expansion of public outlays. The austerity measures were also continued and intensified in the 1982 budget. In 1982, expenditure is estimated to have increased by only 6 per cent over 1980.

282. Consequently, the improved budgetary situation in 1981 has reduced the growing government reliance on the banking system for deficit financing by nearly one half. None the less, because of the inadequate level of the surplus and the inability to tap new sources of revenue, most of the capital expenditure is financed from external loans and grants as well as from domestic borrowing. The level of domestic borrowing is dependent to a large extent on the magnitude of grants and credits available. However, in 1981 such recourse to banking financing was moderated by sharp cutbacks in investment expenditure.

(e) Monetary development

283. Money supply, defined as money proper and quasi money, increased by 20.1 per cent in 1981 over 1980. This was mainly due to the slowdown of the level of domestic credit creation. Domestic credit expansion was curtailed sharply in 1981 and was held to only 17 per cent against 47 per cent and 31 per cent in 1979 and 1980 respectively. Owing to the lower level of recourse by the Government to deficit financing, net credit to the Government increased by 13 per cent in 1981 compared to an increase of 55 per cent in 1980. The restrictive monetary and credit policy of 1980 limited credit to public enterprises to only 8 per cent. Consequently, claims on the private sector are responsible for the monetary expansion. In spite of the recent measures introduced to restrain and limit credit expansion to the private sector to only 7 per cent, credit to the private sector doubled from 1979 to 1980 and more than tripled in 1981. Such an increase in private demand for bank credit is attributed to the low liquidity with the private sector even though the liquidity position generally improved in 1981 with an increase of 31 per cent compared with only 20 per cent in 1980.

284. Because of the favourable developments in the external sector, the net foreign assets of the banking system have improved slightly. This has led to the partial absorption of excess liquidity with the commercial banks and thus helped in containing the inflationary tendencies in the economy. However, such trends may not continue, as the balances held abroad by the commercial banks and the Governments are likely to decrease.

3. Major problems and policies

285. In the 1970s, numerous factors adversely affected the growth of the Somali economy and contributed to long standing internal and external financial imbalances. On the whole, the economy is fragile and highly susceptible to external impulses. The merchandise exports cover only one third of the merchandise imports. Imports to cover food deficits and growing energy requirements have only almost exhausted the export earnings. The budgetary deficit has persisted over the years owing to rises in government expenditure and a decline in domestic revenues and foreign grants. This acceleration in the money supply exerted considerable pressures on price levels and the rate of inflation more than tripled in five years reaching 59 per cent in 1980.

286. Facing these adverse developments, the Government in mid 1981 launched an ambitious and comprehensive programme of economic recovery. The programme aims to promote economic growth and reduce inflation by improving the deteriorating external trade position. The corrective adjustment measures include tightening of fiscal policy, the liberalization of private sector imports, devaluation of the Somali shillings, liberalization of price policies to stimulate domestic production, restraining growth in the money supply by raising interest rates and an assessment of the operation of public enterprises. The programme was further strengthened by stabilization policy measures in July 1982 which, among other things, unified the dual exchange rate system to boost exports, promote import substitution industries and encourage the inflow of remittances. The programme also envisaged a further devaluation of 21 per cent on the export side and 31 per cent on the import side in domestic currency terms. These programmes are mainly directed to redressing the overall imbalance in the budget by reducing excess demand pressures through strict monetary policies.

THE SUDAN

1. Economic trends, 1981-1982

(a) Introduction

287. The 1970s, and particularly the second half thereof were a difficult period for the Sudanese economy in terms of almost all economic indicators. However, in institution-building and social development there were tangible achievements. For most of the period, GDP growth was variable, oscillating around 5 per cent in the first half of the 1970s and falling subsequently to negative growth in 1978-1979 and 1979-1980. In 1980-1981, however, the planning authorities estimate a healthy growth of 5.6 per cent mostly because of the recovery of agriculture, lifting with it other sectors.

288. The fluctuations and stagnation in production affected exports at a time of heavy imports of investment goods and resulted in a widening of the balance-of-payments gap and ultimately in constraining the country's ability to repay its outstanding debts on schedule. Thus the country was forced to seek debt rescheduling and debt relief arrangements, mainly through the facilities of the Paris Club.

289. Government finances also came under heavy strain and increasing reliance had to be placed on counterpart funds derived from commodity aid, financial support and banking recourse. The latter measure, along with power and transport difficulties, in turn set in motion strong price inflation.

(b) Sectoral performance

290. Agriculture is the mainstay of the Sudanese economy and contributes directly some 37 per cent of GDP. It is the source of virtually all exports and employment and has an enormous impact on all other sectors of the economy. It has been estimated that agriculture has been growing at an average yearly rate of 3.2 per cent, but the surplus for export has stagnated causing considerable balance-of-payment problems. The historical low growth was due to a deterioration in irrigated agriculture which prompted the Government to implement a rehabilitation programme at the cost of £S 100 million to provide much needed modernization and replacement of capital stock and infrastructure in agriculture. The main impact is expected to be apparent in 1982-1983 and after. Sugar production however has been an exception, but much below target. In rain-fed agriculture output was also sensitive to climatic changes but more or less continued to surge upwards and yielded some food grain surpluses.

291. In 1981-1982 all crops except wheat have shown considerable increases in output, partly owing to increase in area. There were in fact considerable jumps in food production. Output of Durra and Dukhn, the two main staple crops, increased by 28.0 per cent and 16.7 per cent in 1981-1982 following similar rises of 22.9 per cent and 20.8 per cent in 1980-1981, sesame increased by 14.2 per cent and groundnuts by 55.6 per cent. Sugar production at 206,000 tons, also increased by 17.5 per cent after a large jump of 55.3 per cent in 1980-1981. Only wheat fell, by 16.5 per cent, its fourth fall since 1978-1979 partly because of a decline in area grown and partly because of a drop in productivity.

292. The major cash crop, cotton, recorded a substantial increase of 11.4 per cent in 1981-1982 after a considerable fall in output and productivity since 1978-1979. Gum arabic production another cash crop in which the Sudan holds a virtual monopoly - also increased by 25.1 per cent in 1980-1981, following a drop of about 33 per cent in 1979-1980 owing to higher prices announced before the beginning of the season.

293. Weather considerations aside, many factors constrained the full utilization of ample capacities created in this sector in recent years particularly in the irrigated subsector. Transport, fuel and power supply inadequacies have seriously hampered production. Poor net returns and irregular flows of inputs further exacerbated the situation.

294. The growth of the small largely agro-based manufacturing sector was arrested by the low surplus in agriculture and suffered even more than agriculture from transport, fuel and power constraints. The large outflux of trained labour to work in oil rich Arab countries and foreign exchange shortages for imported raw materials and spare parts added to the difficulties of the sector. However, the productive capacity especially for sugar and textiles has been greatly developed in recent years.

295. Shortage of energy is one of the major constraints to the development of the country. Currently imports of oil absorb over 70 per cent of the country's exports. Per capita energy is high by African standards owing to the vastness of the country and the fact that its modern sector is highly capital intensive. However, petroleum consumption fell in 1981-1982 by 10.4 per cent - largely because of foreign exchange considerations - against rises of 1.6 per cent in 1980-1981 and 4.2 per cent in 1979-1980. The country, while conserving energy through rationing and price rises, is also intensifying its oil

exploration activities with the help of Western oil companies and encouraging strikes were made in the south-western corner of the country. Total output is estimated to be about 35,243 b/d. Initial thinking was to build a 25,000 b/d refinery at Kosti together with a pipeline. This is expected to meet more than 50 per cent of projected consumption by mid-1980s. However, the refinery scheme was later replaced by a pipeline project to export crude for lack of sufficient finance.

(c) Balance of payments

296. The deficit in the balance of payments continued to widen. In 1981 it reached SG 339 million or about 77.2 per cent of exports and more than twice the earnings from cotton, the major crop. This deficit is mainly attributable to fast growth in imports which in 1981 amounted to SG 1000.6 million or more than twice the level of exports. The services account however recorded its fourth surplus in a row owing to larger inflows of remittances from nationals working abroad. Although exports have increased, the trade gap widened sharply. However, the growth in exports is mainly attributed to improvement in prices as quantities exported stagnated and even declined in case of commodities like cotton, groundnuts and gum arabic. The behaviour of the capital account has been erratic with repayments of official loans increasing progressively although their current values do not reflect the magnitude of repayments obligations. In order to stabilize the external position and to correct domestic price distortions, the Government continued to pursue its exchange adjustment programme. Thus the Sudanese pound was devalued by 35 per cent in November 1981 and by a further 45 per cent in November 1982.

(d) Fiscal developments

297. The fiscal position continued to be tight notwithstanding great efforts to contain the situation within a framework of an economic recovery programme. Since the inception of the stabilisation programme which preceded the former programme in 1977-1978 total expenditure continued to exceed revenue by larger and larger margins. In 1980-1981 the over all budget deficit rose to SG 1,9 million against a deficit of SG 143.0 million in 1977-1978. One encouragement however has been the faster growth of revenue than of expenditure during this period (26 per cent against 22.4 per cent) in contrast to trends in previous years. The slower growth in expenditure during this period was closely associated with the curtailment of development spending.

298. The 1980-1981 and 1981-1982 budgets project further jumps in revenue by 15.6 per cent and 20.1 per cent respectively but ordinary expenditure is estimated to rise by 19.5 per cent and 28.9 per cent

respectively and, as a consequence, the current deficit is expected to widen. However, the 1981-1982 forecasts no recourse to bank financing for the first in nearly two decades. A number of measures were taken to increase revenue and reduce unnecessary expenditure and strengthen the follow-up machinery.

(e) Monetary developments

299. The growth in money supply continued to fall from 32.7 per cent in 1979 and 31.6 per cent in 1980 to 27.4 per cent in 1981. This drop was essentially due to the continuous fall in foreign assets as credit to both the Government and the private sector continued to rise, albeit at slightly lower rates in recent years following the enunciation of the economic recovery programme.

300. One of the main developments in 1981 has been the liberalization in foreign exchange dealings. Dealers were required to deposit with the Central Bank $US 100,000 and $US 150,000 and $US 200,000 and in case of individuals, partnerships and companies respectively before commencing business. Towards the end of the year, 10 dealers opened offices in the major towns of the country. The main objective is to attract more foreign exchange remittances by nationals working abroad and to provide the private sector with a source in foreign exchange for imports.

2. Major problems and policies

301. The overall growth performance of the Sudanese economy in the second half of the 1970s has been far from satisfactory. During this period, there were frequent shortfalls in the production of some of the basic agricultural crops mostly owing to irrigations problems and low productivity. With the decline of agriculture, the chief foreign exchange earner, the resource gap in the recent years has grown beyond any reasonable management limits. This appalling situation has forced the Government to initiate a set of measures and policies affecting the various sectors and institutions to correct the imbalance.

302. The difficult economic situation prompted the Government to adopt an "economic stabilization programme" in 1978 and in "economic recovery programme" in 1981, both supported by IMF and the World Bank with a package involving balance-of-payments support and rehabilitation programmes to be administered within the framework of agreed foreign exchange, fiscal and monetary policies. The package, however, is still to prove its worth several years after its inception.

303. The sectoral policies reflected the need for improved production in key sectors. To boost agricultural production the Government in 1981 abolished the joint account and profit sharing system for cotton - a practice followed since 1925 with the inception of the Gezira Board - and replaced it by individual accounts whereby each tenant is charged only the cost of services rendered by the Government and the Gezira Board. In September 1981, cotton exports were also removed from the official to the parallel market to provide more incentives to tenants to enhance their production with full and prompt payment promised upon delivery of the crop. A price stabilization fund for cotton exports was also established. Similarly, to provide additional incentives to improve industrial production, the authorities took a number of measures in 1981. Exemptions were extended to include the import of power generating equipments, industrial spare parts and heavy transport vehicels.

304. The major policies affecting the external balance include:

(a) The Sudanese pound was devaluated by 25 per cent in November 1981 and by a further 45 per cent in November 1982;

(b) An export action programme was launched in 1981 by the Government to boost exports and the licensing system was tightened to restrict low priority imports;

(c) Special concessions were granted to maximize the repatriation of savings by Sudanese working abroad;

(d) To encourage exports, taxes on exports were removed or greatly reduced;

(e) The Government, with official and commercial lending banks, negotiated the rescheduling of existing debt and loan obligations and concluded new repayment schedules for borrowings from private commercial banks and government organizations.

305. The fiscal balance also received due attention by the initiation of a number of policies to include:

(a) Prices of petroleum products were increased on 1 March 1981 by eliminating subsidies. Prices were again increased on 9 November 1981 in line with the new unified exchange rate;

(b) The retail price of sugar was raised from 16 pt to 26 piastres per rotle in January 1982. Depending on the international price of sugar, this should eliminate subsidies and restore sugar monopoly profits;

(c) The price of cigarettes was raised in November 1981 and again in January 1982, by increasing the stabilization fund excise duties;

(d) A tax has been levied on incomes of Sudanese working abroad;

(e) Steps are being taken to eliminate subsidies to public enterprises by reforming sick public companies and dissolving those making losses.

306. Much concern has been devoted to the formulation of proper pricing policies with a view to regularizing the operation of the economy which include:

(a) Producer prices of all crops have been brought into line with international prices. They are now being announced before harvest and kept under constant review to maintain incentives to growers. Payment for cotton is now being made promptly;

(b) The cost recovery system in irrigated agriculture has been revised to reflect actual costs of production for each crop. This has improved the net revenue for cotton growing;

(c) Plans have been approved to establish a cotton stabilization fund to even out fluctuations in grower's earnings;

(d) Public utility charges have been increased with the aim of recovering full costs. This will not only eliminate subsidies but will also generate reserves to finance replacement and renewal of equipment.

307. In the field of economic co-operation, Egypt and the Sudan signed an "Integration Charter" in 12 October 1982. This is to consolidate the original agreement signed by the two countries in 1974 to work towards "unity". Harmonization of economic and institutional setups was seen as an important requisite for "unity" in the future. Educational systems and curricula and research programmes would also be unified or co-ordinated. A "Nile Valley" parliament - essentially an advisory body - was also set up to watch over the integration process. Integration will permit the utilization of the ample arable land in the Sudan with Egyptian manpower resources and expertise in agriculture and as such may attract more Arab money. A development bank will also be established to finance joint projects.

Best copy available

UGANDA

1. Economic trends, 1981-1982

(a) Overall growth trends

308. According to official data, Uganda experienced a recovery in 1981-1982. Real GDP is estimated to have risen by 5.7 per cent in 1981 as compared to a decline of 3.2 per cent recorded in 1980. To a large extent, the economic recovery in Uganda seems to have been influenced by the implementation of a package of monetary and fiscal measures by the Ugandan Government aiming at revitalising and stabilising the economy. In addition other political measures like the return to private ownership and control of companies which were nationalized during the military regime helped to bring about a clear recovery in some industrial and agricultural enterprises.

309. However, it would still seem that the largest part of the overall GDP growth resulted from the good performance of the non-monetary sector which is estimated to have expanded in real terms by about 10 per cent. Subsistence agriculture did particularly well with a rate of increase of 12.3 per cent. In the formal sector the mining and manufacturing sectors maintained their 1980 levels in terms of real value added. Transport, however, grew relatively fast at 8.3 per cent.

310. Although information on the expenditure of GDP is sketchy, it is known that there was some increase in the level of investment in 1980 and 1981 particularly as a result of some increase in capital inflows. The ratio of investment to GDP is therefore estimated to have increased to 3.4 per cent in 1980 and still further in 1981. On the other hand, savings are estimated to have stagnated with a result that the ratio of gross national savings to GDP declined further from the 1.6 per cent estimate of 1980. The decline in gross national savings is mainly the result of a significant fall in real household incomes and the persistent trend of negative public savings. With coffee sales 45 per cent higher in 1981-1982 than 1980-1981 and cotton sales to ginners higher by 15 per cent in the same period, the external trade position improved slightly. In addition, owing to an increase in capital inflows, the overall balance on the current account was estimated to be in surplus by about $91.3 million.

311. The government budgetary position also improved slightly in 1981-1982 as total recurrent receipts increased tenfold as compared to a threefold rise in recurrent expenditure. All these positive trends would seem to be related to the floating of the Uganda shilling, the rationalisation of the taxation structure, and the setting of ceilings on the budget deficits and domestic credit expansion. The price increases also seem to have levelled off in 1982 after a jump following the June 1981 floating of the shilling and increase in producer prices.

(b) Sectoral trends

312. The agricultural sector which employs more than 90 per cent of the Ugandan population accounted in 1981 for over 50 per cent of total GDP, 60 per cent of total government revenue and 95 per cent of total foreign exchange earnings. However the performance in agriculture during the 1970s was severely affected by a combination of factors such as low producer prices, delayed payments to farmers for their produce, breakdown in the processing and transport services and a general deterioration of the marketing structure. In June 1981, the Government announced a package of reform and policy instruments aimed at boosting agricultural output and since then, some improvement seems to have taken place.

313. Food crop production which was at a generally low level in 1979 and 1980 seems to have revived in 1981 and 1982. In addition the new projects for cereal growing (with FAO assistance), rice development (with assistance from China) and integrated food production in Karamoja (with EEC aid) are likely to raise the levels of food output significantly. As a result of the sharp increases in prices for cash crops announced by Government in 1981 and 1982 and other radical agricultural policies, cash crop production has also experienced a remarkable recovery from the declines of the late 1970s. In 1982, official coffee purchases are estimated to have reached 150,000 tons as compared to only 37,500 tons in 1981. Coffee production is expected to rise further to reach 185,000 tons or more in 1983 especially after the completion of the EEC-aided coffee rehabilitation programme. The production of cotton, the second most important cash crop in Uganda, had substantially declined in the 1970s but is expected to get a boost in 1982 and 1983 as a result of the increases in producer prices. However the other crops - tea, tobacco and sugar - will require extensive rehabilitation programmes before a clear recovery can be achieved.

314. During the 1970s, mineral production declined to negligible proportions. Copper production, which was until 1972 a major export earner, stopped because the entire copper mine came to a virtual standstill. The rehabilitation of these mines is a major priority and copper output is expected to resume in 1984. Manufacturing industries continued to do poorly in 1981 registering an overall decline in output relative to 1980 mainly as a result of continued problems of availability of inputs and spares.

(c) Fiscal and monetary trends

315. One of the most important economic policies undertaken in Uganda since the liberation in 1979 was in the fiscal and monetary fields. The measures taken in June 1981 and mid-1982 were aimed at controlling the currency and establishing sounder fiscal and monetary base. In 1981 the Ugandan shilling was floated resulting in a de facto devaluation

from the official USh 7.9 to a dollar to over USh 70 to a dollar. In August 1987, the floating of the Ugandan shilling was supplemented by an additional measure involving the creation of a two-tier exchange system. Under the system, two currency windows are operated by the central bank. Under window I, the value of the Ugandan shilling vis-à-vis other currencies is fixed weekly by the central and commercial banks and foreign exchange is allocated using the fixed exchange rate for essential imports such as oil, agricultural and industrial inputs and medicines. Under window II, a minimum of $1 million per week is auctioned to the general public including State-owned companies seeking goods or services not covered under window I. The weekly auction price is determined by the central bank on the basis of the lowest bid which fully exhausts the available supply of dollars. In the initial stages of operations under window II the rate of a dollar was around USh 300 and it is hoped that, after some time, the rates of the two windows will be able to converge into a single rate.

316. As a result of the floating of the shilling and the subsequent two-tier exchange regime, the general trend on money has been a squeeze on the liquidity of institutions and the private sector. This in turn has resulted in a significant increase in demand for credit from the banking system. Thus in 1981 the private sector credit rose by about 91 per cent, but claims on Government also increased in 1981 but tapered off in 1982 owing partly to increased revenue from the auctions of foreign exchange. Over all, money supply, narrowly defined to include currency in circulation and demand deposits, increased more slowly in 1981 by USh 3,238 million or 31 per cent in 1981 as compared to an increase of USh 14,282 or 103 per cent recorded in 1980.

317. Along with the currency policies, the Government introduced in June 1981 fiscal policies to improve the budgetary position. Firstly, the Government substantially raised taxes on sales, imports and exports. Import duties were also changed from specific to ad valorem rates to take advantage of the changes in exchange rates and revisions were made in the effective rates of sales tax and excise duties on a number of major items. As a result, recurrent revenues during fiscal year 1981/82 totalled USh 24,951 million, representing a tenfold increase over the 1980/81 revenue. Total recurrent expenditure rose moderately to USh 34,388.7 million, thus implying a much reduced budgetary deficit of only USh 4,857.0 million. The development budget expenditure was low at USh 9,051.1 million in 1981/82 mainly because many projects were not fully implemented and most of the projects had a large external assistance component. Owing to a slow disbursement rate of external assistance, total revenue for the development budget amounted to only USh 3,141.9 million thus implying a large overall government deficit of USh 10,437 million.

(d) Foreign trade, balance of payments and external assistance

318. Since 1977 which the value of Uganda's exports reached the peak level because of a boon in coffee prices, both the volume and value of exports have declined. In 1980 export earnings amounted to just over half the value attained in 1977. In 1981-1982, coffee sales improved, reaching to 145 per cent of 1980-1981 total sales with actual shipment reaching 120,000 tons. Imports have also risen steadily since 1980 owing mainly to the increases in costs of oil imports whose value tripled to reach over $120 million in 1980-1981. The total deficit on the goods and services account has therefore remained high at $250 million as compared to a surplus of $63.4 million in 1977. However, the balance-of-payments position greatly benefited from an increased inflow of foreign resources. In 1981 Uganda obtained a tranche of $70 million for import support from an IDA credit of $95 million. A further $20 million was obtained under the STABEX scheme and $107 under Lome I and an IMF stand-by arrangement will enable Uganda to draw an equivalent of SDR 137 million as stand-by credit and compensatory financing. Finally with regard to bilateral donors, at a meeting of the Paris Club of creditors held in Paris in November 1981 some of Uganda's most important donor countries agreed in principle to reschedule or cancel Uganda's debts thus alleviating the debt service burden in the short run. In May 1982 a consultative group meeting of donors was also held in Paris with Uganda requesting for assistance for a two year programme of recovery of around $600 million.

2. Major problems and policies

319. Uganda's economy is still suffering from the effects of previous economic mismanagement, neglect and insecurity. The economy requires tremendous efforts to revitalise the productive sectors of agriculture, mining and industry and the supporting infrastructure, especially transport, needs to be refurnished. Further, the monetary and fiscal aspects have to be stabilised so that most of the activities in the black market part of the economy can be reintegrated in the official economic structures.

320. As a first step to resolving some of these problems, a package of monetary and fiscal measures was introduced in 1981. With the assistance of IMF, this package has been implemented with a view to stabilising the economy by (a) eliminating high price distortions resulting from over valued exchange rates; (b) improving incentives to produce for export; (c) rationalising imports; and (d) improving the government's budgetary performance. From preliminary indications, it is apparent that some success has been achieved under the package of measures including the floating of the Ugandan currency, increased producer

prices for the main exports, increased consumer prices for certain imports, removal of price controls, the reduction in the budget deficit, rationalised tax structure and a new structure of interest rates.

321. The second step that the Ugandan Government took was the launching of a recovery programme in April 1982. The programme aims at reviving the productive capacity of the economy with emphasis on agriculture (20 per cent of programme costing), industry (25 per cent) and transport (21 per cent). The projects in the programme were selected on the basis of five criteria (a) capacity to earn foreign exchange rapidly; (b) quick stimulation of industrial or agricultural output; (c) impact on the recurrent budget; (d) importance for economic recovery; and (e) urgency for humanitarian and social needs. In addition the recovery programme identified the need for technical assistance to strengthen public administration, planning, etc..

THE UNITED REPUBLIC OF TANZANIA

1. Economic trends, 1981-1982

(a) Overall growth trends

322. The year 1981/1982 was the third successive year of grim economic problems in the United Republic of Tanzania. The overall GDP declined by 3.6 per cent in real terms in 1981. This was due to a substantial drop in the contribution from the directly productive sectors agriculture, natural resources, mining and manufacturing - which registered a decline of 11 per cent in 1981 compared with a 4 per cent drop in 1980. The most precipitous rate of decline was in manufacturing (26.2 per cent), followed by mining (9.9 per cent) and agriculture (7.6 per cent). Real growth was attained in electricity and water (1.9 per cent), construction (6 per cent), transport and communication (2.3 per cent), finance (3.3 per cent) and public administration (3.9 per cent). The services sector accounts or about 50 per cent of GDP, followed by agriculture (35 per cent) and industry (15 per cent).

323. Capital formation rose from TSh 6,736 million in 1980 to TSh 9,582 million in 1981. In real terms, this represents a growth of 9.9 per cent which was a significant performance compared with the 18 per cent decrease in 1980. The ratio of real capital formation to GDP was 24.7 per cent in 1981, approaching the 25 per cent attained in 1979 when real GDP growth was 3.5 per cent. However, the decrease in the GDP in 1981 - despite the increase in capital formation - is a clear indication of the underutilization of productive capacity occasioned by the scarcity of foreign exchange to import raw materials and other inputs. Total consumption, which represented 88 per cent of GDP in 1981, increased by 4.5 per cent. Exports of goods and services grew by 2.7 per cent and imports decreased by 9 per cent.

(b) Sectoral trends

324. The contribution of agriculture to total domestic production declined by 7.5 per cent in constant 1966 prices in 1981, mainly as a result of a decline in the food crop production. About 192,000 tons of the major cereals (maize, rice and wheat) were imported in 1981 compared to 176,000 tons in 1980. The purchase of these cereals by the National Milling Corporation declined to 104,943 tons for maize (34.9 per cent decrease) to 4,226 tons for paddy (82.7 per cent decrease), and to 10,139 tons for rice (7.1 per cent decrease). However, wheat purchases increased by 4.4 per cent from 26,732 tons in 1979-1980 to 27,912 tons in 1980-1981.

325. With regard to cash crops, performance was mixed. Coffee and pyrethrum registered an increase in output while the output of sisal, cashewnuts, tobacco, cotton and tea declined. The manufacturing sector expanded vigorously until three years ago; then it dropped by 17.3 per cent in 1980 and by a further 23.2 per cent in 1981 in real terms. The output of iron sheets for instance dropped by 38.7 per cent, petroleum products by 15.6 per cent, cement by 10.3 per cent, sisal ropes by 58.7 per cent and wheat flour by 22.6 per cent. Likewise, there was a significant drop in the output of several minerals including diamonds and common salt. However, construction registered a 5 per cent increase in constant prices.

(c) Financial development and prices

326. The 1981/1982 period was the fourth successive year of persistent deficit in the recurrent budget. Total recurrent revenue was expected to amount to TSh 10,460 million compared to the budget estimate of TSh 13,981 million. During the same period recurrent expenditure was expected to amount to TSh 13,687 million, resulting in a recurrent budget deficit of TSh 3,227 which was financed by bank borrowing. The major reason for the non-realization of expected revenues is the scarcity of foreign exchange which has constrained production in manufacturing and other sectors, resulting in reduced sales tax and other revenue collection. Actual development expenditure was expected to be lower than budgeted, essentially because of the scarcity of materials and equipment for the implementation of projects. The development budget estimates for 1981-1982 were put TSh 6,522 million. Indications are however that only TSh 5 billion would be spent by the end of the fiscal year. This compares with TSh 4,755.5 million spent on development projects in 1980-1981.

327. In 1981, money supply, broadly defined to include time and savings deposits rose by TSh 3,774.8 million or 18.1 per cent in 1981 compared with a rise of TSh 3,713.3 million or 26.9 per cent in 1980. This rate was still unacceptably high given the fact that monetary GDP declined by 1.1 per cent in 1980 and increased by 11 per cent in 1981. This expansion in money supply in 1981 was entirely due to growth in domestic credit, particularly credit to the government sector, which rose by TSh 2,944.6 million or 27 per cent. Commercial bank lending to the various sectors of the economy increased by TSh 1,135.9 or 15.5 per cent in 1981, and this increase was entirely accounted for by the large increase in bank credit for the marketing of agricultural produce. Net foreign assets fell by TSh 342.9 million or 2.6 per cent, thus exerting a contractionary effect on the growth of money supply. The divergence of the growth in real GDP and rapid monetary expansion maintained the substantial inflationary pressures observed in the two preceding years. In 1981, the consumer price index for urban areas rose by 25.6 per cent compared with 30.2 per cent in 1980.

(d) Development in the external sector

328. The trade balance registered a deficit of TSh 4,017 million in 1981 compared to the deficit of TSh 5,882 million recorded in 1980. This reduction in the balance-of-trade deficit was due to deliberate government action in imposing further restrictions on imports owing to the serious scarcity of foreign exchange and the need to reduce the accumulated payment arrears which had exceeded TSh 2.8 billion by December 1981. The value of Tanzanian commodity exports increased by 5.8 per cent in 1981 to TSh 4,429.7 million. The rise was due to a slight increase in the quantities of the major export crops. Coffee,

the leading foreign exchange earner brought in TSh 1,436 million compared to TSh 1,119 million in 1980 an increase of 30.1 per cent. The volume of exported coffee increased by 31.7 per cent over the 1980 level but its average price dropped slightly by 1.3 per cent to TSh 21,509 per ton in 1981. Cotton took second place in foreign exchange earnings bringing in TSh 509 million, 72.7 per cent more than in 1980. Raw cashewnuts, sisal and cloves earned more foreign exchange in 1981 than in 1980. Earnings from diamond exports amounted to TSh 254 million compared to TSh 362 million in 1980, while tobacco exports realised TSh 185 million and meat exports fetched TSh 23 million. The European Economic Community received 30.5 per cent of the United Republic of Tanzania's exports, Commonwealth countries 28.9 per cent, other independent African countries 12.1 per cent, Hong Kong 5.8 per cent, Socialist countries of Eastern Europe 5.1 per cent and North America 1.5 per cent.

329. The total import bill amounted to TSh 10,065 million, representing an 8.1 per cent increase over the previous year. Machinery and transport equipment accounted for 40.6 per cent of the total, mineral oils and lubricants 22.3 per cent, manufactured goods 13.9 per cent, live animals 9.2 per cent and chemical and fertilizers 8.6 per cent. The remaining 5.4 per cent was taken up by beverages and tobacco, crude materials, miscellaneous manufactures and transactions. The balance of current account registered a deficit of TSh 3,260.5 million in 1981 compared to a deficit of TSh 3,505.1 million in 1980. After taking into account net capital movements and other payment including exceptional financing, there was a TSh 25.6 million net increase in the overall balance of payments and the foreign reserves increased by the same amount.

2. Major problems and policies

330. Bad weather conditions, poor farming methods as well as problems related to the procurement and distribution of agricultural inputs were among the factors behind the general decrease in agricultural production. Industrial production continued to be hampered by the shortage of raw materials, spare parts and other intermediate products owing to foreign exchange constraints. Capacity underutilization was common in many manufacturing firms and several firms were forced to close. This has led to a decline in output of many industrial commodities. Among the problems faced by the mining industry were the aging and near depletion of a number of mines and the lack of a comprehensive programme for buying minerals from private dealers. The lack of foreign exchange seriously constrained endeavours to acquire much transport and communications equipment, construction materials and experts in all fields. This, in turn, was due to the poor performance of the export sector. In effect the foreign exchange crisis continues as both export prices and quantities exported remain low. At the same time import costs have so

outstripped export earnings that in 1982 total external payments due amounted to TSh 3,400 million. The payment burden is expected to become even more acute in the coming years as major loans such as the one that financed the Uhuru railway reached maturity. Internally, the low level of productivity in the key sectors, which is aggravated by such factors as bad weather conditions, management difficulties and the shortages of skilled personnel continues to occasion acute shortages of essential consumer goods and services, inflationary pressures and severe budgetary difficulties.

331. To deal with those problems, the Government launched the national economic survival programme in May 1981. The main objective is to mobilize domestic resources to the maximum extent possible by expanding the export sector, making judicious use of available foreign exchange, eliminating food shortages through inexpensive small-scale village projects, strict control of public spending in both the Government and parastatals and consolidating on going projects. In 1982, it was realized that the programme needed to be complemented by measures aimed at controlling inflation, raising productivity in industry and other sectors by making fuller use of existing productive and service capacities and controlling credit expansion for the Government and parastatals. The structural adjustment programe calls for the mobilization of $US 300 million annually in import support in addition to other commercial loans and supplier credits. About $US 30 million would be directed from project aid to balance-of-payment support for imports of raw materials, spare parts and other essential inputs.

THE UPPER VOLTA

1. Economic trends, 1981-1982

(a) General development

332. The economic development of the Upper Volta in 1981 was determined as in previous years by the country's geographical and demographic characteristics. It is land-locked (the part of the country that is nearest to the Atlantic Ocean is some 800 km. away) the dearth of arable and hospitable land has created overpopulated areas especially on the Mossi plateau with a density of 35 inhabitants per km^2 as against a national average of 23 inhabitants per km^2. The country is in the Sahel region which is subject to wide fluctuations in weather. This trend confirmed the key role the rural sector plays in economic growth.

(b) Sectoral development

333. In 1981, GDP increased by 18.9 per cent in current terms as against 11 per cent in 1980 (9.8 and 2 per cent respectively in real terms) for respective values of 324.5 and CFAF 272.8 billion. That increase was almost wholly imputable to the excellent harvests of 1981-1982 which brought the rural sector's share of GDP to CFAF 130.3 billion compared to 93.2 billion in 1980 (40 per cent of GDP at current prices against 34.2 per cent) corresponding to an increase in volume of about 39.7 per cent. Food crops, dominated by millet and sorghum (a total of 1,114 tons compared to 879,000 tons in 1980-1981 or a 26.4 per cent increase) yielded a grain surplus of 135,000 tons as compared to the minimum grain ration of 180 kg per inhabitant fixed by FAO, thus improving the food situation of the country.

334. There has been no improvement in the manufacturing industries since production growth dropped from 19.4 per cent per annum to 16.2 per cent between 1970-1975 and 1975-1980. Industrial production remained at the 1980 level and the traditional sector which accounts for 62 per cent (12.3 per cent of GDP), and the modern sector (5 per cent of GDP) geared towards processing industries (drinks, tobacco and cycles) recorded a drop in demand for consumer goods. This stagnation corresponds to a 10 per cent decrease in volume. Building and public works as well as services, which represent 3 and 44 per cent of GDP at current prices, grew at a rate of about 1% per cent. During the same periods, 1970-1975, and 1975-1980, per capita GDP grew at an annual rate of 3.6 per cent and 17.6 per cent respectively and then increased by CFAF 44,000 and CFAF 50,012 in 1980 and 1981.

335. With respect to domestic demand, the slight drop in private consumption from 86.6 per cent of GDP in 1980 to 77.6 per cent in 1981 was accompanied by an increase in the average rate of gross domestic capital formation from 20.6 per cent to 28.2 per cent of GDP at current prices while the gap between domestic production and total domestic demand (filled in by imports) was maintained (as a percentage of GDP) at the same level as in 1980.

(c) Fiscal and monetary policies

336. A change in budget terminology in 1980-1981 makes it difficult to compare the various budgets of the State. However, the period of slow down in the growth rate of current government revenue and expenditure which increased by only 9.3 and 1 per cent in 1980 as against 23.6 and 24.5 per cent respectively in 1979 was followed by an up-turn (as would all through an increase in fiscal revenue of 17.9 per cent) where expenditure increased by 12.3 per cent and incomes by 11.9 per cent. Thus, the budget, which had constantly registered a surplus since 1977, showed a deficit of CFAF 1,997 million in 1981 which led to a deterioration of the Government's credit rating with banking institutions in the amount of CFAF 1,550 million. This change can be attributed to the difficulties in collecting fiscal revenue and to the heavy outlays made by the Government to open up the country by improving existing transport networks. The credits granted to the Government as well as the increase of 9 per cent in credits earmarked for the economy led to an increase in the money supply of about 7.2 per cent as against 19.9 per cent in 1980.

(d) External trade - balance of payments

337. The Upper Volta's trade relations with the outside world were characterized by:

(a) An increase in imports of 20.9 per cent (compared to 1980) owing to a very heavy dependence on the outside world for fuel: the proportion of petroleum product imports increased from 11 per cent of the total in 1979 to 13 per cent in 1980 and then to 15.56 per cent in 1981, i.e. an increase of more than 44 per cent;

(b) Difficulties in promoting traditional exports dominated by cotton (19 per cent, 15.2 per cent, 43.9 and 41 per cent in 1970, 1975, 1980 and 1981) and livestock (23.7 per cent and 17.6 per cent in 1980 and 1981 respectively). The price of cotton fell by 2.3 per cent and revenues therefrom dropped by the same percentage.

338. The rate of coverage of imports by exports thus dropped to 21.3 per cent in 1981 as against 25.2, 39, 20.9 and 54.3 in 1980, 1979, 1975 and 1970 respectively. These imbalances between the value of exports and the value of imports coupled with an ever-growing black marketeering with neighbouring countries and an unfavourable net value of non-factor services position, increased the deficit on goods and services to CFAF 114,220 million or CFAF 103,100 if the corrected statistics on black market trading are utilized.

339. As realized since 1970, unrequited transfers (involving essentially immigrant labour to the Ivory Coast) and non-monetary capital can no longer counter balance the trade deficit. The overall balance-of-payments deficit was CFAF 10,[illegible] million in 1971 as against CFAF 6,[illegible] million in 1970 and a surplus of CFAF 2,300 million in 1969. The Upper Volta's external debt was CFAF 12,[illegible] million (22.5 per cent of GDP as against 20.5 per cent in 1970) while debt servicing amounting to CFAF 3,300 million or [illegible] per cent of exports as against [illegible] and 12 in 1970 and 1969 respectively while the ability to absorb credits still remained low (only about 50 per cent of the assistance offered is actually utilized).

Major problems and policies

340. As stated above, the rural sector is the key sector in the economic growth of the Upper Volta. The scope of the restrictive budgetary policy of the Government has reduced consumption expenditure in favour of investment in this sector, limiting the number of unskilled people recruited and increasing income tax from 12 to 15 per cent. This policy was resisted by civil servants and trade unions and the effects of the 15 per cent upward salary adjustments decided in 1970 were limited by the existing system of taxation. The alternate swing from budget surpluses to budget deficits seems to be the result of the Government's decision to give priority first of all to savings (converted into treasury reserves) over investments then gradually to absorb the reserves thus accumulated.

341. Pricing and raw materials marketing policies (especially the increases in producer prices of shea butter, cotton and sugarcane) do not seem to have been stimulating enough because the expected income surpluses did not permit an increase in gross agricultural capital formation. However, a Caisse nationale de crédit agricole was established in 1970 to give financial support to producers. Cotton, sugarcane and groundnuts are the basis of industrialization geared towards processing local raw materials within the country while a road building fund has been set up to try to mobilize the resources required to implement road infrastructure projects and improve the existing road network. The monetary policy controlled by the West African Monetary Union and backed by France through the operations account of the French Treasury, aims at monitoring the money supply by limiting credits in particular: fixing a ceiling of CFAF 30 million above which the issuing bank must request special permission, limiting credits granted to the Government to a specific percentage of fiscal revenue and so on.

342. Prospects for 1972 and 1973 seem promising because of the good harvest in 1971-1972 and excellent rainfall. They are propitious for relaunching the rural sector and extractive industries such as the gold mines of Poura and the manganese mines of Tambao (reserves of 17.7 million tons and 1,200 to 1,500 jobs). The implementation of the major regional development projects through the regional development agencies with the appropriate supporting infrastructure will make it possible to decentralize development and open up the hinterland.